

NEW ISSUE, BOOK-ENTRY ONLY



STATE OF WASHINGTON

Insured Ratings:

Fitch:	AAA
Moody's:	Aaa
Standard & Poor's:	AAA
Underlying Ratings:	
Fitch:	AA
Moody's:	Aa1
Standard & Poor's:	AA

\$119,015,000

Various Purpose General Obligation Refunding Bonds, Series R-2004C

\$156,475,000

Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004D

Dated: Date of Initial Delivery
(Expected March 9, 2004)

Due: January 1
as shown on pages i and ii hereof

The Series R-2004C Bonds and the Series R-2004D Bonds (collectively, the "Bonds") are general obligations of the State of Washington (the "state") to which the state has pledged its full faith, credit and taxing power. The Series R-2004D Bonds are first payable from state excise taxes on motor vehicle and special fuels.

Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning July 1, 2004. The principal of the Series R-2004C Bonds is payable upon their respective stated maturities on each January 1, beginning January 1, 2005, through and including January 1, 2021, as set forth on page i hereof. The principal of the Series R-2004D Bonds is payable upon their respective stated maturities on each January 1, beginning January 1, 2005, through and including January 1, 2022, as set forth on page ii hereof. The Bonds are subject to redemption prior to maturity at the times and prices set forth herein under "The Bonds—Redemption Provisions."

The Bonds are issuable as fully registered bonds under a book-entry only system, initially registered in the name of Cede & Co. (the "Registered Owner"), as bond owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only. The Bonds will be issued in the denomination of \$5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the fiscal agency of the state, as paying agent, registrar, transfer agent, and authenticating agent (the "Bond Registrar") (currently The Bank of New York) to DTC, which in turn is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to beneficial owners of the Bonds, as described herein under "The Bonds—Book-Entry System."

In the opinion of Bond Counsel to the state, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See "Tax Exemption" and "Certain Other Federal Tax Consequences" under "Tax and Legal Information" herein.

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.



This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed decision. The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.

It is anticipated that the Bonds will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about March 9, 2004.

No dealer, broker, salesperson, or other person has been authorized by the state to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from sources which are believed to be current and reliable. However, the state makes no representation regarding the accuracy or completeness of the information in Appendix E—Book-Entry Transfer System, provided by DTC, or in “Other Bond Information—Municipal Bond Insurance Policy,” provided by MBIA Insurance Corporation. Estimates and opinions included herein should not be interpreted as statements of fact. The information and expressions of opinion stated herein are subject to change without notice. The delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the state, or any agency or instrumentality thereof, since the date hereof. Neither this Official Statement nor any statement made herein is to be construed as a contract with the purchasers of any of the Bonds.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER(S) MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED OR RECOMMENCED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement, including but not limited to Appendix A, constitute “forward looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “forecast,” “estimate,” “budget,” or other similar words. The achievement of certain results or other expectations contained in such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. The state does not plan to issue any updates or revisions to those forward looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

MATURITY SCHEDULE

STATE OF WASHINGTON

\$119,015,000

Various Purpose General Obligation Refunding Bonds, Series R-2004C⁽¹⁾

Due January 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2005	\$ 1,555,000	2.000%	1.000%	100.805%	93974AT38
2006	600,000	2.000	1.290	101.266	93974AT46
2007	5,590,000	4.000	1.660	106.399	93974AT53
2008	5,845,000	4.000	2.020	107.225	93974AT61
2009	6,105,000	4.000	2.400	107.226	93974AT79
2010	6,365,000	4.500	2.600	110.182	93974AT87
2011	6,675,000	4.500	2.840	110.210	93974AT95
2012	6,990,000	4.500	3.080	109.787	93974AU28
2013	7,305,000	4.500	3.280	109.265	93974AU36
2014	7,635,000	4.500	3.450	108.672	93974AU44
2015	7,985,000	4.500	3.590	107.464 ⁽²⁾	93974AU51
2016	8,345,000	4.500	3.700	106.527 ⁽²⁾	93974AU69
2017	8,735,000	4.500	3.810	105.599 ⁽²⁾	93974AU77
2018	9,125,000	4.500	3.920	104.681 ⁽²⁾	93974AU85
2019	9,560,000	4.500	4.070	103.444 ⁽²⁾	93974AU93
2020	10,045,000	4.500	4.170	102.629 ⁽²⁾	93974AV27
2021	<u>10,555,000</u>	4.500	4.260	101.902 ⁽²⁾	93974AV35
Total	\$ 119,015,000				

(1) Authorized by chapters 39.42 and 39.53 RCW and Resolution No. 875.

(2) Priced to the January 1, 2014, par call date.

MATURITY SCHEDULE

STATE OF WASHINGTON

\$156,475,000

Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004D⁽¹⁾

Due January 1	Principal Amounts	Interest Rates	Yields	Prices	CUSIP
2005	\$ 2,055,000	2.000%	1.000%	100.805	93974AV43
2006	780,000	3.000	1.280	103.068	93974AV50
2007	4,485,000	4.000	1.660	106.399	93974AV68
2008	7,865,000	4.250	2.020	108.137	93974AV76
2009	8,215,000	4.500	2.400	109.485	93974AV84
2010	8,570,000	4.500	2.550	110.466	93974AV92
2011	8,965,000	4.500	2.840	110.210	93974AW26
2012	9,360,000	4.500	3.080	109.787	93974AW34
2013	9,800,000	4.500	3.280	109.265	93974AW42
2014	10,240,000	4.500	3.450	108.672	93974AW59
2015	10,715,000	4.500	3.590	107.464 ⁽²⁾	93974AW67
2016	11,195,000	4.500	3.700	106.527 ⁽²⁾	93974AW75
2017	11,720,000	4.500	3.810	105.599 ⁽²⁾	93974AW83
2018	12,250,000	4.500	3.920	104.681 ⁽²⁾	93974AW91
2019	12,820,000	4.500	4.070	103.444 ⁽²⁾	93974AX25
2020	13,410,000	4.500	4.170	102.629 ⁽²⁾	93974AX33
2021	7,105,000	4.500	4.260	101.902 ⁽²⁾	93974AX41
2022	<u>6,925,000</u>	4.500	4.350	101.181 ⁽²⁾	93974AX58
Total	\$ 156,475,000				

(1) Authorized by chapters 39.42 and 39.53 RCW and Resolution No. 875.

(2) Priced to the January 1, 2014, par call date.

The information set forth in this summary is qualified by the entire Official Statement. A full review of the entire Official Statement should be made by potential investors.

SUMMARY DESCRIPTION OF THE BONDS

Issuer:	State of Washington (the “state”).
Offering:	The Various Purpose General Obligation Refunding Bonds, Series R-2004C (the “Series R-2004C Bonds”), and the Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004D (the “Series R-2004D Bonds” and together with the R-2004C Bonds, the “Bonds”), are dated the date of their initial delivery.
Interest Payments:	Interest on the Bonds is payable semiannually on each January 1 and July 1, beginning July 1, 2004.
Principal Payments:	<p>Principal of the R-2004C Bonds is payable at maturity on each January 1, beginning January 1, 2005, through and including January 1, 2021.</p> <p>Principal of the R-2004D Bonds is payable at maturity on each January 1, beginning January 1, 2005, through and including January 1, 2022.</p> <p>The Bonds are not subject to mandatory redemption.</p>
Optional Redemption:	The Bonds are subject to optional redemption at the times and prices set forth herein under “The Bonds—Redemption Provisions.”
Form of Bonds:	The Bonds will be issued in fully registered, book-entry only form, in the denomination of \$5,000 each, or any integral multiple thereof within a single maturity.
Bond Registrar:	The fiscal agency of the state (currently, The Bank of New York) will act as paying agent, authenticating agent, transfer agent, and registrar for the Bonds. Payments of principal of and interest on the Bonds will be paid by the state to the Bond Registrar which in turn will remit such payments to DTC. DTC will remit payments to beneficial owners in accordance with the operational arrangements then in effect at DTC.
Security:	<p>The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds.</p> <p>The Series R-2004D Bonds are first payable from state excise taxes on motor vehicle and special fuels.</p>
Purpose:	The Bonds are being issued to refund certain outstanding general obligation bonds of the state for debt service savings and to pay for the costs of issuance of the Bonds.
Legal Opinion:	The Bonds are offered when, as and if issued, subject to approval of tax exemption and legality by Foster Pepper & Shefelman PLLC, Seattle, Washington, Bond Counsel to the state, and certain other conditions.
Bond Ratings:	The Bonds have been rated by Moody’s Investors Service, Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch.

Continuing Disclosure: The state has entered into an undertaking for the benefit of the owners of the Bonds to provide certain financial information and operating data to certain information repositories annually and to provide notice to each of those repositories or to the Municipal Securities Rulemaking Board and to a state information depository for the state, if one is created, of certain events pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (the “Rule”). See “Continuing Disclosure Undertaking” in the Preliminary Official Statement.

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**STATE FINANCE COMMITTEE
OF THE
STATE OF WASHINGTON**

MICHAEL J. MURPHYState Treasurer and Chairman

GARY LOCKEGovernor and Member

BRAD OWEN..... Lieutenant Governor and Member

Allan J. Martin.....Deputy State Treasurer

BOND COUNSEL TO THE STATE

Foster Pepper & Shefelman PLLC
Seattle, Washington

FINANCIAL ADVISORS TO THE STATE

Seattle-Northwest Securities Corporation
Seattle, Washington

Montague DeRose and Associates, LLC
Walnut Creek, California

This publication will be available in alternative formats upon request to the Office of the State Treasurer. This publication is available via the Internet at the Office of the Washington State Treasurer's Home Page:

<http://www.tre.wa.gov>

The availability of this publication via the Internet will not under any circumstances create any implication that there has been no change in the affairs of the state since the date hereof, or that the statements and information herein are current as of any date after the date hereof.

The state's website is not part of this Official Statement, and investors should not rely on information presented in the state's website in determining whether to purchase the Bonds. This inactive textual reference to the state's website is not a hyperlink and does not incorporate the state's website by reference.

CONTACT INFORMATION

State of Washington

Office of the State Treasurer
Legislative Building
PO Box 40200
Olympia, Washington 98504-0200
Phone: (360) 902-9000

Bond Registrar and Paying Agent

The Bank of New York
101 Barclay Street, 21st Floor
New York, New York 10286
Phone: (800) 438-5473

Bond Counsel

Foster Pepper & Shefelman PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
Phone: (206) 447-4400

Financial Advisors

Seattle-Northwest Securities
1420 Fifth Avenue, Suite 4300
Seattle, Washington 98101
Phone: (206) 628-2882

Montague DeRose & Associates, LLC
3093 Citrus Circle, Suite 165
Walnut Creek, California 94598
Phone: (925) 256-9797

OFFICIAL STATEMENT

STATE OF WASHINGTON

\$119,015,000

Various Purpose General Obligation Refunding Bonds, Series R-2004C

\$156,475,000

Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004D

The purpose of this Official Statement, including the cover hereof and the appendices hereto, is to provide certain information, including with respect to the state of Washington (the “state”), in connection with the offering and sale of the above-captioned general obligation bonds and general obligation bonds.

Numerous state agencies including, in particular, the Office of the State Treasurer, the Department of Revenue, the State Attorney General, the Economic and Revenue Forecast Council, the Department of Retirement Systems, and the Office of Financial Management have assisted the State Finance Committee in assembling the information contained herein. All references to and summaries of certain provisions of the Constitution and laws of the state and any other documents and agreements referred to herein do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof. Certain financial information regarding the state has been taken or derived from the audited financial statements and other financial reports of the state. Reference should be made to said audited financial statements and other financial reports, and their accompanying notes, for more complete information. Copies thereof are available for inspection at the Office of the State Treasurer upon request. Any statements involving estimates, projections or forecasts are to be construed as such, rather than statements of facts or representations that such estimates, projections or forecasts will be realized.

Reference is made to Resolution No. 875 (the “Bond Resolution”) of the State Finance Committee (the “Committee”), authorizing the issuance of the Series R-2004C Bonds (as defined below) and the Series R-2004D Bonds (as defined below) for the definitions of capitalized terms not otherwise defined herein.

State Finance Committee

The Committee is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. Pursuant to Chapter 3, Laws of 1981 (Section 43.33.030 of the Revised Code of Washington (“RCW”)), the Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of its official duties in accordance with prescribed policies of the Committee.

THE BONDS

Authority and Purpose

The \$119,015,000 principal amount State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2004C (the “Series R-2004C Bonds”) are being issued pursuant to chapters 39.42 and 39.53 RCW and the Bond Resolution. The Series R-2004C Bonds are being issued to refund certain various purpose general obligation bonds of the state for debt service savings and to pay for the costs of issuance of the Series R-2004C Bonds

The \$156,475,000 principal amount State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004D (the “Series R-2004D Bonds”) are being issued pursuant to chapters 39.42 and 39.53 RCW and the Bond Resolution. The Series R-2004D Bonds are being issued to refund certain motor vehicle fuel tax general obligation bonds of the state for debt service savings and to pay the costs of issuance of the Series R-2004D Bonds.

Together, the Series R-2004C Bonds and the Series R-2004D Bonds are referred to herein as the “Bonds.”

Description

The Bonds are dated the date of their initial delivery, and will be issued as fully registered, book-entry only bonds. Interest on each Series of the Bonds will be calculated on the basis of a 360-day year and twelve 30-day months, and will be payable semiannually on each January 1 and July 1, beginning July 1, 2004, at the rates shown on pages i and ii hereof, respectively. Principal of the Series R-2004C Bonds is payable on each January 1, beginning January 1, 2005, through and including January 1, 2021, in the amounts shown on page i hereof. Principal of the Series R-2004D Bonds is payable on each January 1, beginning January 1, 2005, through and including January 1, 2022, in the amounts shown on page ii hereof.

Pursuant to authority granted in chapter 43.80 RCW, the Committee appoints one or more fiscal agents for the state with the authority to act as paying agent, transfer agent, authenticating agent, and bond registrar for all obligations issued by the state and its political subdivisions. The fiscal agent appointed by the Committee from time to time is herein referred to as the Fiscal Agent or the Bond Registrar. The Committee is currently under contract with The Bank of New York to act as the fiscal agent for the State of Washington, which contract has a four-year term that began February 1, 2002. Under the terms of the current fiscal agency contract, The Bank of New York will authenticate the Bonds for delivery to DTC and will remit payments received from the state as principal and interest to DTC. See “Book-Entry Bonds.”

Redemption Provisions

Optional Redemption. The state has reserved the right to redeem either Series of the Bonds maturing on or after January 1, 2015, as a whole or in part on any date on and after January 1, 2014 (with the maturities to be redeemed to be selected by the state and randomly within a maturity in such manner as the Bond Registrar determines), at par plus accrued interest to the date fixed for redemption.

Notice of Redemption. Notice of redemption shall be given by the Bond Registrar not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owners of the applicable Series of Bonds to be redeemed at the address appearing on the bond register maintained by the Bond Registrar; *provided, however*, as long as the applicable Series of Bonds are in book-entry form, notice of redemption will be given in accordance with the operational arrangements then in effect at DTC. The state will not provide notice of redemption to any beneficial owners of the applicable Series of Bonds.

Book-Entry System

The information in this section has been provided by DTC. The state makes no representation for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and purchasers will not receive physical certificates representing their interests in the Bonds purchased. For information about the DTC book-entry system, see Appendix E—Book-Entry Transfer System.

Termination of Book-Entry System. If DTC resigns as the securities depository and no substitute can be obtained, or if the state has determined that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificates, the ownership of the Bonds may be transferred to any person as described in the Master Assignment of Payments and the Bonds no longer will be held in fully immobilized form. New bonds then will be issued in appropriate denominations and registered in the names of the bond owners.

State and Bond Registrar Responsibilities. Neither the state, the Committee nor the Bond Registrar will have any responsibility or any liability to the Beneficial Owners for any error, omission, action, or failure to act on the part of DTC with respect to the following:

- (i) proper recording of beneficial ownership interests of the Bonds;
- (ii) proper transfers of such beneficial ownership interests;
- (iii) the payment, when due, to the Beneficial Owners of principal of and premium, if any, or interest on the Bonds;
- (iv) any notices to Beneficial Owners, or
- (v) any other matter pertaining to the Bonds.

PLAN OF REFUNDING

Upon delivery of the Bonds, the state will enter into an Escrow Agreement with U.S. Bank National Association, as Escrow Agent, to provide for an advance refunding of the various purpose general obligation bonds (the “Various Purpose Refunded Bonds”) and the motor vehicle fuel tax general obligation bonds (the “Motor Vehicle Fuel Tax Refunded Bonds” and, together with the Various Purpose Refunded Bonds, the “Refunded Bonds”) set forth below. The refunding is being undertaken to achieve debt service savings. The Escrow Agreement creates an irrevocable trust fund to be held by the Escrow Agent and to be applied solely to the payment of the Refunded Bonds. The net proceeds of the Bonds will be deposited with the Escrow Agent and invested in noncallable direct obligations of the United States of America or investments authorized under RCW 39.53.010 (referred to herein as “Government Obligations”) that will mature and bear interest at rates sufficient to pay the principal of and accrued interest and premium, if any, coming due on the respective redemption dates of the Refunded Bonds.

The Government Obligations and earnings thereon are held solely for the benefit of the registered owners of the Refunded Bonds.

The mathematical accuracy of (i) the computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations to be held by the Escrow Agent to pay principal and interest and the redemption premium, if any, on the Refunded Bonds as described above, and (ii) the computations supporting the conclusion of Bond Counsel that the Series R-2004C Bonds and the Series R-2004D Bonds are not “arbitrage bonds” under Section 148 of the Internal Revenue Code of 1986, as amended, will be verified by Grant Thornton, independent certified public accountants.

The following tables list the Refunded Bonds.

VARIOUS PURPOSE GENERAL OBLIGATION REFUNDED BONDS

Bond	Maturity Date	Interest Rate (%)	Par Amount (\$)	Call Date	Call Price (%)
<i>Various Purpose GO Bonds, Series 1996A, dated 08/01/1995</i>					
Serials	07/01/2006	5.125	5,110,000	07/01/2005	100
	07/01/2007	5.250	5,410,000	07/01/2005	100
	07/01/2008	5.375	5,730,000	07/01/2005	100
	07/01/2009	5.400	6,070,000	07/01/2005	100
	07/01/2010	5.500	6,430,000	07/01/2005	100
	07/01/2011	5.600	6,810,000	07/01/2005	100
	07/01/2012	5.750	7,215,000	07/01/2005	100
	07/01/2013	5.750	7,640,000	07/01/2005	100
	07/01/2014	5.750	8,095,000	07/01/2005	100
	07/01/2015	5.500	8,570,000	07/01/2005	100
Term	07/01/2017	5.750	18,695,000	07/01/2005	100
Term	07/01/2020	5.250	<u>32,405,000</u>	07/01/2005	100
Total			118,180,000		

MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION REFUNDED BONDS

Bond	Maturity Date	Interest Rate (%)	Par Amount (\$)	Call Date	Call Price (%)
<i>MVFT GO Bonds, Series 1995E, Dated 06/01/1995</i>					
Serials	09/01/2006	4.950	230,000	09/01/2005	100
	09/01/2007	5.050	245,000	09/01/2005	100
	09/01/2008	5.150	260,000	09/01/2005	100
	09/01/2009	5.250	275,000	09/01/2005	100
	09/01/2010	5.300	290,000	09/01/2005	100
	09/01/2011	5.350	310,000	09/01/2005	100
	09/01/2012	5.400	330,000	09/01/2005	100
	09/01/2013	5.450	350,000	09/01/2005	100
	09/01/2014	5.500	370,000	09/01/2005	100
	09/10/2015	5.550	395,000	09/01/2005	100
	09/01/2016	5.550	420,000	09/01/2005	100
	09/01/2017	5.600	445,000	09/01/2005	100
	09/01/2018	5.600	475,000	09/01/2005	100
	09/01/2019	5.650	500,000	09/01/2005	100
	09/01/2020	5.650	<u>535,000</u>	09/01/2005	100
Subtotal			5,430,000		
<i>MVFT GO Bonds, Series 1996B, Dated 12/01/1995</i>					
Serials	06/01/2007	5.100	3,465,000	06/01/2006	100
	06/01/2008	5.200	3,640,000	06/01/2006	100
	06/01/2009	5.400	3,830,000	06/01/2006	100
	06/01/2010	5.450	4,035,000	06/01/2006	100
	06/01/2011	5.500	4,255,000	06/01/2006	100
	06/01/2012	5.550	4,490,000	06/01/2006	100
	06/01/2013	5.600	4,740,000	06/01/2006	100
	06/01/2014	5.650	5,005,000	06/01/2006	100
Term	06/01/2016	5.500	10,860,000	06/01/2006	100
Term	06/01/2020	5.500	<u>25,550,000</u>	06/01/2006	100
Subtotal			69,870,000		
<i>MVFT GO Bonds, Series 1997B, Dated 07/01/1996</i>					
Serials	07/01/2007	5.400	3,290,000	07/01/2006	100
	07/01/2008	5.500	3,470,000	07/01/2006	100
	07/01/2009	5.600	3,665,000	07/01/2006	100
	07/01/2010	5.600	3,880,000	07/01/2006	100
	07/01/2011	5.700	4,105,000	07/01/2006	100
	07/01/2012	5.700	4,350,000	07/01/2006	100
	07/01/2013	5.750	4,610,000	07/01/2006	100
	07/01/2014	5.800	4,890,000	07/01/2006	100
	07/01/2015	5.800	5,190,000	07/01/2006	100
	07/01/2016	5.800	5,505,000	07/01/2006	100
Term	07/01/2018	5.750	12,040,000	07/01/2006	100
Term	07/01/2021	5.875	<u>21,005,000</u>	07/01/2006	100
Subtotal			76,000,000		
Total			151,300,000		

SECURITY FOR THE BONDS

Pledge of Full Faith and Credit

The Bonds are general obligations of the state, and the full faith, credit and taxing power of the state are pledged irrevocably to the payment of the Bonds.

Pledge of Excise Tax on Motor Vehicle and Special Fuels

General. The principal of and interest on the Series R-2004D Bonds are first payable from the proceeds of the state excise taxes on motor vehicle and special fuels imposed by chapters 82.36 and 82.38 RCW and required to be deposited in the motor vehicle fund. In the legislation authorizing the issuance of the Motor Vehicle Fuel Tax Refunded Bonds, the State Legislature has agreed to continue to impose those excise taxes on motor vehicle and special fuels in amounts sufficient to pay when due principal of and interest on those Motor Vehicle Fuel Tax Refunded Bonds, and that pledge also applies in respect of the Series R-2004D Bonds pursuant to chapter 39.53 RCW.

There are other general obligation bonds authorized by the State Legislature that are secured by a charge on the state excise taxes on motor vehicle and special fuels equal in rank to the charge on those taxes securing the Series R-2004D Bonds. See Appendix C—Bonds Outstanding.

The Series R-2004C Bonds are *not* payable from state excise taxes on motor vehicle and special fuels.

Annual Set-Aside of Excise Taxes. At least one year before each interest or principal and interest date on the Series R-2004D Bonds, the Committee will estimate the percentage of excise taxes received on motor vehicle and special fuels which are required to be set aside monthly in the highway bond retirement fund to pay maturing installments of debt service on the Series R-2004D Bonds. In any month, if it appears that the available funds are insufficient to meet debt service requirements, the Committee will make the necessary adjustments to its percentage estimate to ensure that payment of principal of and interest on the Series R-2004D Bonds will be made when due.

FUTURE SALES OF OBLIGATIONS

The state currently anticipates that it will authorize and issue approximately \$401 million various purpose general obligation bonds and approximately \$220 million motor vehicle fuel tax general obligation bonds in the fall of 2004, and approximately \$310 million various purpose general obligation bonds and \$169 million motor vehicle fuel tax general obligation bonds in the spring of 2005.

In addition, when and if market conditions allow refunding of additional higher rate bonds, such refundings will be considered.

ECONOMIC AND REVENUE FORECASTS

Revenue, budgetary and economic information concerning the state government and Washington State as a whole is contained in Appendix A. Pursuant to state law the Office of Economic and Revenue Forecast Council (the “Council”) provides state economic and tax revenue results and forecasts on a quarterly basis. The most recent release of data occurred on February 19, 2004. A press release summarizing the results of the February 19, 2004, economic results and forecasts is available on the state’s website (www.erfc.wa.gov). The next forecast will be released on or about June 16, 2004, and a summary of that forecast also will be available on the state’s website on or about that date. Copies of the Quarterly Economic and Revenue Forecast publication and subsequent publications are available on the state’s website (www.erfc.wa.gov) and from the Office of Economic and Revenue Forecast Council, P.O. Box 40912, Olympia, Washington 98504-0912. See Appendix A—General and Economic Information—Revenues, Expenditures and Fiscal Controls—State Economic and Revenue Forecasting Process.

LITIGATION

Except as otherwise disclosed below, there is no litigation now pending against the state to the knowledge of the Deputy State Treasurer based on an inquiry with the Attorney General's Office, in any way restraining or enjoining the sale, issuance, execution, or delivery of the Bonds or in any other manner affecting the validity of the Bonds, the security for the Bonds or the proceedings or authority pursuant to which they are to be sold and issued or the pledge or application of any moneys provided for the payment of the Bonds.

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point in time, there may be numerous lawsuits involving state agencies which could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Corrections, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past two years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

During the reporting period, there were a number of lawsuits challenging the management and administration of state programs. Some lawsuits seek an expansion of program social services for certain constituents. In *Allen v. Western State Hospital*, for instance, the Washington Protection and Advocacy System has filed a class action lawsuit on behalf of patients with developmental disabilities at Western State Hospital alleging that the state programs are inadequate and the state has failed to provide community-based services when appropriate. The trial has been stayed pending further review of whether program changes and funding requests to the State Legislature by the Department of Social and Health Services will resolve claims. A similar lawsuit has been filed on behalf of patients at Eastern State Hospital. *Marr v. Eastern State Hospital*. Two actions filed on behalf of persons with developmental disabilities that are seeking access to Medicaid-funded services, *Arc, et al. v. Quasim* and *Boyle v. Braddock*, were denied class certification and dismissed at the trial court level. Both actions are on appeal to the United States Court of Appeals in the Ninth Circuit. If these claims are not resolved on appeal and the cases are remanded for trial, it is difficult to estimate with any certainty the potential amount of damages that might be recovered. These lawsuits, however, are not expected to have a material impact on state revenues or expenditures. If relief is granted, there would be a need to reprioritize agency program expenditures in the budget process to provide program support for individuals in these classes.

Over the past ten years, the state has reported on the recurring litigation challenging the state's business and occupation tax structure (referred to as the interstate manufacturers litigation). This litigation represents the claims of approximately 115 corporate taxpayers for business and occupation tax refunds from periods from 1980 to the present. In the most recent round of this litigation, the United States Supreme Court denied certiorari review of an April 1999 decision by the State Supreme Court. *W.R. Grace & Co. - Conn. and Chrysler Motors Corporation v. State of Washington, Department of Rev., and Buffelen Woodworking Co., et al. v. State of Washington, Department of Rev.* The State Supreme Court denied claims for a refund except to the extent the taxpayers could demonstrate entitlement to credits against their state tax liability measured by gross receipt of taxes paid to other taxing jurisdictions outside of the state. The cases were remanded to Thurston County Superior Court, and the taxpayers have waived refunds measured by tax credits. The taxpayers continue to use other refund claims to try to re-present the issue to the United States Supreme Court. Sizeable refund awards, however, are considered remote.

In the past there has been periodic litigation involving Medicaid reimbursement issues. Currently, there is one lawsuit which raises issues such as eligibility for Medicaid benefits and the proper formula for cost reimbursement. In the previous cases, these types of claims have been limited and focused by courts through motion practice and eventually resolved through settlement agreements and legislative appropriation. It is difficult to predict whether the current case, *Spokane County v. DSHS*, might result in any significant amount of reimbursement under the theories presented. The plaintiffs allege that mental health services were provided to individuals who were improperly terminated and should have been

included in the applicable formula for payments to the Regional Support Networks. The case was recently filed and formal discovery has not begun. The amount of damages claimed is uncertain, although the damage claim is likely to be in the millions of dollars. If substantial costs are recovered, there may be a need to reprioritize agency program expenditures in the budget process.

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the state have the ability to initiate legislation and to modify, approve and reject existing statutes through the powers of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the State Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the State Legislature. After two years, the law is subject to amendment or repeal by the State Legislature in the same manner as other laws. The State Constitution may not be amended by initiative or referendum.

Initiative 776

Initiative Measure No. 776 (“I-776”) was approved by voters on November 5, 2002. As written, I-776 reduces combined license tab fees for light trucks from between \$37 and \$55 per year, depending upon vehicle weight, to \$30 per year. I-776 also repeals certain government-imposed excise taxes and fees levied on motor vehicles, including, among others, (i) local option vehicle license fees of up to \$15 per year imposed by counties or qualified cities or towns with voter approval, and (ii) voter-approved high capacity transportation motor vehicle excise taxes (“high capacity transportation MVET”) imposed by regional transit authorities (including the high capacity transportation MVET of 0.3 percent of vehicle value currently imposed by Sound Transit). While the precise impact of I-776 cannot be predicted, the state does not expect the provisions of I-776 to affect adversely its ability to make payments on the Bonds in the amounts and at the times required under the Bond Resolutions. In addition, the constitutionality of I-776 has been challenged by Pierce County, the City of Tacoma, King County, and several individual voters. On December 4, 2002, the superior court granted the plaintiffs’ request for preliminary injunction against implementing the repeal of the \$15 local option vehicle license fees charged by King and Pierce Counties pending a summary judgment hearing on or about January 31, 2003. On October 30, 2003, the Washington State Supreme Court ruled that I-776 did not violate the State Constitution’s ban on more than one subject in any legislation and did not substantially impair King County’s contractual obligations to its bondholders. The Supreme Court is reviewing motions for reconsideration and has not remanded the case back to the Superior Court. The issue of whether I-776 would substantially impair the contractual obligations between Sound Transit and its bondholders was not before the Court and will be remanded back to the King County Superior Court after the motions for reconsideration are resolved. While the precise impact of I-776 cannot be predicted, the state does not expect the provisions of I-776 to affect adversely its ability to make payments in the amounts and at the times required under the Bond Resolutions.

Initiative 790

Initiative Measure No. 790 (“I-790”) was approved by voters on November 5, 2002. As written, I-790 changes the Law Enforcement Officers’ and Firefighters’ Retirement System Plan 2 (“LEOFF 2”) by transferring program administration authority to an 11-member rule-making board to be appointed by the Governor (“LEOFF 2 Board”) and institutes three levels of benefits for members, which may increase levels of contribution by local government employers and the state to the LEOFF 2 retirement system. The LEOFF 2 Board can act to (i) increase statutory contribution rates of local government employers and the state up to six percent and four percent, respectively, unless the State Legislature, in its next session, passes a bill to repeal the LEOFF 2 Board action to authorize such increase, or (ii) increase statutory contribution rates of local government employers and the state beyond six percent and four percent, respectively, with approval of the State Legislature. While the precise impact of I-790 cannot be

predicted, the state does not expect the provisions of I-790 to affect adversely its ability to make payments on the Bonds in the amounts and at the times required under the Bond Resolutions.

Future Initiative Legislation

Other tax and fee initiative measures may be filed, but it cannot be predicted whether any such initiative might gain sufficient signatures to qualify for submission to the State Legislature and/or the voters or, if submitted, would ultimately be approved.

TAX AND LEGAL INFORMATION

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the state are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel to the state. Forms of the opinions of such firm with respect to each Series of the Bonds are attached hereto as Appendix B. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption of the Bonds

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements. The state is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. The state has covenanted in the Bond Resolutions to comply with those requirements, but if the state fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Corporate Alternative Minimum Tax. While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Certain Other Federal Tax Consequences

Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions. Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as “qualified tax-exempt obligations,” only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

The state is a governmental unit that, together with its subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Series Bonds may wish to consult their own tax advisors.

Original Issue Premium

The Bonds have been sold at prices reflecting original issue premium. An amount equal to the excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond. A purchaser of a Bond must amortize any premium over such Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. The amount of amortizable premium allocable to an interest accrual period for a Bond will offset a like amount of qualified stated interest on such Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. As premium is amortized, the purchaser’s basis in such Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of the Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors

with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with paragraph (b)(5) of Securities and Exchange Commission (the “SEC”) Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), the State Treasurer, on behalf of the Committee, has agreed in the Bond Resolutions to enter into a written undertaking in the form of a Disclosure Agreement for the benefit of the holders of the Bonds (the “Undertaking”)

Annual Disclosure Report. The state covenants and agrees that not later than seven months after the end of each fiscal year (the “Submission Date”), beginning January 31, 2005, for the fiscal year ended June 30, 2004, the state will provide or cause to be provided to each then existing nationally recognized municipal securities information repository (“NRMSIR”) and to the state information depository for the State of Washington, if one is created (“SID”), an annual report (the “Annual Disclosure Report”) which will consist of the following:

- (i) audited financial statements of the state prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, as such principles may be changed from time to time, except that if the audited financial statements are not available by the Submission Date, the Annual Disclosure Report will contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the state, and the state’s audited financial statements will be filed in the same manner as the Annual Disclosure Report when and if they become available;
- (ii) financial and operating data for the state as set forth in Appendix A to this Official Statement;
- (iii) a summary of the state debt structure by revenue pledge; and
- (iv) a narrative explanation of any reasons for any amendments to this Undertaking made during the previous fiscal year and the effect of such amendments on the Annual Disclosure Report being provided.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the state, or of any related entity, that have been submitted to each of the NRMSIRs and the SID, if any, or to the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board (the “MSRB”). The state will identify clearly each document so included by reference.

The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided herein; provided, that any audited financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such statements are not available by the Submission Date.

If the state’s fiscal year changes, the state may adjust the Submission Date by giving notice of such change in the same manner as notice is to be given of the occurrence of a Material Event.

The state agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the Annual Disclosure Report on or prior to the Submission Date.

Material Events. The state agrees to provide or cause to be provided to the SID, if any, and to each NRMSIR or to the MSRB, timely notice of the occurrence of any of the following events with respect to the Bonds, if material (the “Material Events”):

- (i) principal and interest payment delinquencies;
- (ii) nonpayment-related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders of the Bonds;
- (viii) optional, contingent or unscheduled Bond calls (other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856);
- (ix) defeasances;
- (x) release, substitution or sale of property securing the repayment of the Bonds; and
- (xi) rating changes.

Termination or Modification of Undertaking. The state's obligations under the Undertaking will terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. The Undertaking, or any provision thereof, shall be null and void if the state:

- (i) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the Undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Bonds; and
- (ii) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of the Undertaking.

The state may amend the Undertaking without the consent of any holder of any Bond or any other person or entity under the circumstances and in the manner permitted by the Rule. The State Treasurer will give notice to each NRMSIR or the MSRB and the SID, if any, of the substance of any such amendment, including a brief statement of the reasons therefor.

If the amendment changes the type of Annual Disclosure Report to be provided, the Annual Disclosure Report containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided (or in the case of a change of accounting principles, the presentation of such information). In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements:

- (i) notice of such change will be given in the same manner as for a Material Event, and
- (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Remedies; Beneficiaries. The right to enforce the provisions of the Undertaking will be limited to a right to obtain specific enforcement of the state's obligations thereunder, and any failure by the state to comply with the provisions of the Undertaking will not be a default with respect to the Bonds. The Undertaking inures to the benefit of the State Treasurer and any holder of the Bonds, and does not inure to the benefit of or create any rights in any other person.

Additional Information. Nothing in the Undertaking will be deemed to prevent the state from disseminating any other information, using the means of dissemination set forth in the Undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Material Event, in addition to that which is required by the Undertaking. If the state chooses to include any information in any Annual Disclosure Report or notice of the occurrence of a

Material Event in addition to that specifically required by the Undertaking, the state will have no obligation to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of a Material Event.

Prior Compliance. The state has complied in all material respects with all prior written undertakings under the Rule.

OTHER BOND INFORMATION

Municipal Bond Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (“MBIA”) for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Bond Registrar or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Bond Registrar or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Bond Registrar or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Bond Registrar payment of the insured amounts due on such Bonds, less any amount held by the Bond Registrar for the payment of such insured amounts and legally available therefor.

MBIA. MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands

of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under this heading. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information. The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (i) The Company’s Annual Report on Form 10-K for the year ended December 31, 2002; and
- (ii) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003 MBIA had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.4 billion (unaudited), and total capital and surplus of \$3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA. Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA “AAA.”

Fitch Ratings rates the financial strength of MBIA “AAA.”

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Bond Ratings

The Bonds have been rated "AAA," "Aaa" and "AAA" by Fitch, Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, respectively, with the understanding that, upon delivery of the Bonds, an insurance policy will be issued by the Insurer. The Bonds have been assigned underlying ratings of "AA," "Aa1" and "AA" by Fitch, Moody's Investors Service Inc. and Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. respectively. The state furnished certain information and materials to the rating agencies regarding the Bonds and the state. Generally, rating agencies base their ratings on the information and materials furnished to them and on their own investigations, studies and assumptions. Such ratings reflect only the respective views of such rating agencies and are not a recommendation to buy, sell or hold the Bonds. An explanation of the significance of such ratings may be obtained from any of the rating agencies furnishing the same.

There is no assurance that such ratings will be maintained for any given period of time or that they may not be raised, lowered, suspended, or withdrawn entirely by the rating agencies, or any of them, if in their or its judgment, circumstances warrant. Any such downward change in or suspension or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The state undertakes no responsibility to oppose any such change or withdrawal.

Financial Advisors

Seattle-Northwest Securities Corporation and Montague DeRose and Associates, LLC have served as financial advisors to the state relative to the preparation of the Bonds for sale and other factors relating to the Bonds. The financial advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information relative to the Bonds. The financial advisors make no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement.

The payment of compensation to Seattle-Northwest Securities Corporation as financial advisor is contingent upon the successful delivery of the Bonds to, and full payment for the Bonds by, the successful bidders. Montague DeRose and Associates, LLC is paid on a retainer basis as financial advisor and its compensation is not contingent upon the successful delivery of the Bonds.

Underwriter of the Bonds

The Series R-2004C Bonds are being purchased by Merrill Lynch (the "Underwriter") at a price of \$125,784,003.43, and will be reoffered at a price of \$126,459,872.95, as reflected by the prices or yields set forth on page i of this Official Statement.

The Series R-2004D Bonds are being purchased by the Underwriter at a price of \$165,701,059.35, and will be reoffered at a price of \$166,517,026.40, as reflected by the prices or yields set forth on page ii of this Official Statement.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on pages i and ii

hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

Delivery of Bonds

It is expected that the Bond closing will take place in Seattle, Washington, on or about March 9, 2004. The Bonds will be delivered through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer.

Official Statement

The purpose of this Official Statement is to supply information to prospective buyers of interests in the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions.

Excerpts from the state's 2003 Comprehensive Annual Financial Report (the "CAFR") are attached as Appendix D. Copies of the state's entire 2003 CAFR are available on the Office of Financial Management's website at <http://www.ofm.wa.gov/accounting/financial.htm> or upon request from the Office of the State Treasurer.

Michael J. Murphy, the State Treasurer and Chairman, has reviewed and approved this Official Statement on behalf of the state pursuant to the Bond Resolutions of the Committee.

STATE OF WASHINGTON

By: /s/

State Treasurer and Chairman,
State Finance Committee

Dated: February 26, 2004

APPENDIX A
GENERAL AND ECONOMIC INFORMATION

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INTRODUCTION

State Overview

The state of Washington (the “state”) is located in the northwest corner of the contiguous 48 states and is the 20th largest state by land area and the 15th largest state by population. Based on the U.S. Census Bureau’s 2000 Census, the state’s resident population is 5,894,121, an increase of 21.1 percent over 1990.

The state capital is Olympia, and its largest city is Seattle. Seattle is situated on Puget Sound and is part of the international trade, manufacturing, high technology, and business service corridor that extends from Everett to Tacoma. The Pacific Coast/Puget Sound region of the state includes approximately 75 percent of the population, the bulk of industrial activity and most of the state’s forests, which are important to the timber and paper industries. The balance of the state includes agricultural areas primarily devoted to grain, apple and other fruit orchards and dairy operations.

In recent years the state’s economy has diversified, with employment in the trade and service sectors representing an increasing percentage of total employment relative to the manufacturing sector.

For an assessment of the current economic and budgetary outlook of the state, see “Outlook for the 2003-05 Biennium.” For certain economic and demographic information with respect to the state, see “Economic Information.”

State Finance Committee

The State Finance Committee (the “Committee”) is composed of the Governor, Lieutenant Governor and State Treasurer, the latter being designated by law as Chairman. The Office of the State Treasurer provides administrative support to the Committee. By statutory provision, the Committee is delegated authority to supervise and control the issuance of all state bonds. A Deputy State Treasurer acts as recording officer for the Committee and is responsible for the administration of official duties in accordance with prescribed policies of the Committee.

REVENUES, EXPENDITURES AND FISCAL CONTROLS

Revenues

The state’s tax revenues are comprised primarily of excise and *ad valorem* taxes. By constitutional provision, the aggregate of all regular (nonvoted) tax levies upon real and personal property by the state and local taxing districts may not exceed one percent of the true and fair value of such property. Excess levies are subject to voter approval.

Excise Taxes. Certain select sales and gross receipts taxes accounted for approximately 53.02 percent of total state tax revenues for the fiscal year ending June 30, 2003.

The retail sales tax and its companion use tax represent the largest source of state tax revenue, accounting for 48.96 percent of total collections. The retail sales and use tax is applied to a broad base of tangible personal property and selected services purchased by consumers, including construction (labor and materials), some machinery and supplies used by businesses, services and repair of real and personal property, and other transactions not taxed in many other states. Among the various items not subject to this tax are most personal services, motor vehicle fuel, food for off-premises consumption, trade-ins, manufacturing machinery, and purchases for resale. The current state retail sales and use tax rate is 6.5 percent.

Business and occupation tax collections represented approximately 15.9 percent of total state taxes for the fiscal year ending June 2003. The business and occupation tax is applied to gross receipts of all business activities conducted within the state. Business and occupation tax rates include a principal rate of

0.484 percent of gross income for manufacturing and wholesaling businesses. Retail firms pay 0.471 percent, and services pay 1.5 percent.

The motor vehicle fuel tax represented approximately 6.2 percent of all state taxes for Fiscal Year 2003. The 2003 tax rate is 28 cents per gallon.

Property Taxes. The state's property tax is levied against the true and fair value of property as determined by the Department of Revenue. The property tax for local taxing districts is levied against the assessed value as determined by county assessors. For property taxes payable in 2003, assessed value averaged 89.9 percent of fair market value.

The state property tax levy represented approximately 12.15 percent of all state tax revenues for Fiscal Year 2003. The state property tax levy is limited to the lesser of 101 percent or 100 percent plus the percentage change in inflation (as measured by the Implicit Price Deflator for Personal Consumption (the "IPD")) of the dollar amount of property taxes levied in the highest of the three most recent years plus an additional dollar amount calculated by multiplying the increase in assessed value resulting from new construction and improvements by the property tax rate for the preceding year. The state levy rate for taxes due in 2003 was \$2.930 per \$1,000 of true and fair property value.

By statute, all of the state's property tax levy is dedicated to the support of public schools.

Income Tax. The State Constitution, as interpreted by the State Supreme Court, prohibits the imposition of a graduated tax on net income.

Tax Collection. Four state agencies are responsible for administering the major state taxes: the Department of Revenue, the Department of Licensing, the Liquor Control Board, and the Office of the Insurance Commissioner. The State Treasurer receives the revenues from the collecting agencies and deposits and distributes the funds as required by law. Almost all state agencies collect some form of revenue. For state budget purposes, however, the definition of tax generally excludes such revenue sources as license fees, liquor profits, lottery receipts, charges for service such as tuition, federal grants and revenue sharing, and proceeds of bond issues.

State Expenditure and Revenue Limitation—Initiative 601. Initiative 601, passed by the voters in November 1993, places limits on state taxation and General Fund-State government expenditures and sets forth a series of guidelines for limiting revenue and expenditure increases and stabilizing long-range budget planning.

Under Initiative 601, the state generally is prohibited from increasing expenditures from the General Fund-State during any fiscal year by more than the fiscal growth factor, which is calculated annually and is defined as the average of the sum of inflation and population change for each of the three prior fiscal years. The inflation index used for the computation of the fiscal growth factor is the IPD, which is determined from the same data used to establish the U.S. gross national product. This growth factor is used to determine a state spending limit for programs and expenditures supported by the General Fund-State. The spending limit became operational on July 1, 1995, based on the population and inflation growth factor determined in November 1994, which is based upon data accumulated for Fiscal Years 1992, 1993 and 1994. Annual adjustments to the expenditure limit are made by the Expenditure Limit Committee ("ELC"), which is comprised of members from the Office of Financial Management ("OFM"), legislative fiscal committees and the Office of the Attorney General. The annual adjustment to the limit is based on the previous year's actual General Fund-State expenditure and changes in population and inflation growth. The fiscal growth factors for the 1997-99 Biennium were 4.05 percent for Fiscal Year 1998 and 4.18 percent for Fiscal Year 1999. The fiscal growth factors for the 1999-01 Biennium are 3.32 percent for Fiscal Year 2000 and 2.87 percent for Fiscal Year 2001. The fiscal growth factors for the 2001-03 Biennium are 2.79 percent for Fiscal Year 2002 and 3.29 percent for Fiscal Year 2003. However, statutory changes to the expenditure limit

adopted in the 2000 Legislative Session make it possible for the effective rate of increase in expenditures to be higher than the fiscal growth factors (Engrossed House Bill 3169 (“EHB 3169”)).

Initiative 601 also directs the ELC to make downward adjustments in the expenditure limit for costs of any state program or function that is shifted from the General Fund-State to another funding source, or for moneys that are transferred from the General Fund-State to another fund or account. In the event costs of a federal, state or local government program are transferred to or from the state by court order or legislative enactment, under the Initiative the expenditure limit may be increased or decreased accordingly by the ELC. Restrictions are placed on the addition or transfer of functions to local governments unless there is reimbursement.

The statutory changes to the expenditure limit adopted in the 2000 Legislative Session (EHB 3169) now allow the spending limit to be increased when revenues from another fund or account are transferred to the General Fund-State. As a result of this change, growth in General Fund-State expenditures can exceed the Initiative 601 fiscal growth factors to the extent that surplus revenues in other accounts are available for transfer to the General Fund-State.

Initiative 601 in its original form also limited revenue increases. It required that any action by the Legislature to raise state revenues be taken only if approved by a two-thirds vote of both houses of the Legislature. In the 2002 Legislative Session, a change to this provision was adopted (as a part of the Supplemental Budget Bill) which allows revenues to be increased with a simple majority vote. This provision applied to actions taken through June 30, 2003.

Initiative 601 abolished the Budget Stabilization Account and created two new reserve funds (the Emergency Reserve Fund and the Education Construction Fund) for depositing revenues in excess of the spending limit. Initiative 728, adopted by voters in November 2000, added a third fund, the Student Achievement Fund, which captures a portion of revenues in excess of the spending limit. Ending balances in the Budget Stabilization Account were transferred to the General Fund-State (\$100 million) and the Pension Reserve Account (\$25 million) in the fiscal year ending June 1996.

Initiative 601 in its original form allowed the Legislature to access and appropriate money from the Emergency Reserve Fund (“ERF”) based on a two-thirds majority. A measure adopted in the 2002 Legislative Session temporarily allows access to money in the ERF based on a simple majority. EHB 3169, adopted in the 2000 Legislative Session, provides the Office of the State Treasurer with the authority to transfer monies between the General Fund-State and the ERF at the conclusion of each fiscal year, to ensure that revenues deposited in the ERF for that year are exactly equal to the amount of revenues collected in excess of the expenditure limit for that year. During the 2003 special session, the Legislature authorized the transfer of the ERF balance to the General Fund-State in Fiscal Year 2004.

Most of Initiative 601, including the General Fund-State expenditure limit, became effective July 1, 1995. Two provisions of the initiative became effective on December 1, 1993: the requirement for supermajority legislative approval of fee increases beyond the fiscal year growth factor, and a restriction on new taxes being imposed without voter approval. At the beginning of Fiscal Year 1996 (July 1, 1995), the requirement for voter approval for new tax measures expired. Taxes now can be enacted with a two-thirds majority of both houses of the Legislature if resulting General Fund-State expenditures do not exceed the spending limit. Voter approval still would be required to exceed the spending limit. However, the Supplemental Budget Bill passed in the 2002 Legislative Session allows revenue increases to occur based on a simple majority vote for any action taken through June 30, 2003.

Finally, EHB 3169 changes the threshold for spillover of money from the Emergency Reserve Fund to the Education Construction Fund from five percent of biennial revenues to five percent of annual revenues and gives the State Treasurer the authority to make the appropriate end-of-year reconciliations between the funds.

State Nontax Revenue. The largest components of state nontax revenue include such items as revenues derived from the sale of supplies, materials and services, fines and forfeitures, income from property, transfer of lottery proceeds, and income from liquor sales.

Federal Grants. Legislative appropriations for federal programs are designated specifically from federal revenue sources. To the extent that federal funds are not received, the appropriated expenditures may not be incurred.

Expenditures

Expenditures of general state revenues are made pursuant to constitutional and statutory mandates. Most general state revenue is deposited in the General Fund-State. For a breakdown of expenditures by function, see the table titled “Washington State Expenditures” below.

State Funding of Basic Education. The state’s expenditures for public schools are mandated by the state constitutional requirement for support of the common schools. In 1976, Seattle School District No. 1 brought suit against the state to require the state, under the State Constitution, to make “ample provision for common schools.” The decision, upheld by the State Supreme Court in 1978, required the state to ensure that each public school district would receive the funds needed to provide a basic education. The Court ordered the Legislature to decide the level of program funding and the funding mechanism.

The Legislature has passed four major pieces of legislation to further ensure stability and predictability for school funding.

- (i) *The Basic Education Act* was passed in 1977, before the Supreme Court ruling, and describes course offerings, teacher contract hours, and core student/staff ratios. The Supreme Court recognized the passage of this Act in its opinion, but specifically declined to comment upon its adequacy.
- (ii) *The Levy Lid Act*, also passed in 1977 and last amended in 1992, addresses property tax issues affecting basic education funding by limiting local property tax levies and providing for the gradual equalization of levy capacity per student throughout the state.
- (iii) In 1981, legislation limiting local compensation increases to those authorized by the state was passed. Since personnel costs comprise over 80 percent of the public school budget, this legislation provides state financial decision-makers with an important cost containment tool.
- (iv) *The School Financial Improvement Act* amended the Levy Lid Act in 1987. The amended act provided for state assistance to equalize tax rates for local levies, established a state-wide salary allocation schedule with mandated minimum salaries for teachers and required school districts to maintain minimum teacher/student ratios.

Social and Health Services. The Department of Social and Health Services (“DSHS”) is the primary human service agency in the state; its expenditures account for the second largest category of state budget expenditures. DSHS provides services that are essential for the physical safety, security and survival of individuals and families, including protective services for children, the aged and mentally disabled people, as well as for people in institutions and other residential care facilities.

The largest expenditure within DSHS is the Medical Assistance program. Through this program, necessary medical care is made available to recipients of cash assistance programs, beneficiaries of Supplemental Security Income and other eligible people with low incomes who do not qualify for income assistance. In addition to support from the General Fund-State, funding is received from the federal government for those people and services covered under Medicaid (Title XIX of the Social Security Act). The Medical Assistance budget has grown significantly in recent years. Growth in the number of eligible recipient groups, such as pregnant women and children, and growth in other eligible populations, such as

disabled people, has resulted in increased expenditures. Rising health care costs and requirements to provide higher payments to hospitals also have added to the increase in this budget.

The Economic Services program provides support to families with limited incomes and disabled people who cannot work. The federal government is providing funds for the Temporary Assistance for Needy Families program and in several other smaller programs.

DSHS also provides other social service programs. It is responsible for supporting community mental health programs and operating state psychiatric hospitals, institutions for the developmentally disabled, nursing homes, institutions for juvenile rehabilitation, child welfare service programs, child support enforcement activities, drug and substance abuse treatment programs, and vocational rehabilitation services.

Corrections. The Department of Corrections operates 15 correctional institutions, including two prerelease facilities and 15 work-training release facilities. The rapid growth in inmate population (the primary cost driver) is, in part, the result of various crime initiatives enacted in the state. These include the Omnibus Drug Act of 1989, the Community Protection Act of 1990, Initiative 593—“Three Strikes and You’re Out,” approved by Washington voters in November 1993, and the Violence Prevention Act of 1994. Over the past several years the Department of Corrections has constructed nearly 5,000 new prison beds. The newest prison, Stafford Creek Corrections Center, is a 1,936-bed, multi-custody facility that opened in April 2000 near Aberdeen, approximately 50 miles west of Olympia. Even with the additional prison beds, the Department of Corrections has had overcrowding issues, and has begun renting prison beds from out-of-state. As of the end of May 2003 approximately 250 inmates have been transported to the High Desert State Prison in Indian Springs, Nevada.

Budgeting, Accounting and Fiscal Controls

Budgeting. The state operates on a July 1 to June 30 fiscal year and on a biennial budget basis, the constitutionally prescribed period. Formulation of the state’s operating budget is initiated by OFM, the Governor’s budget agency, with the distribution of instructions to all state agencies establishing guidelines and information requirements. Development of agency budgets begins approximately nine months prior to the regular legislative sessions, which convene in odd-numbered years. Formal budget requests are forwarded by each agency to the Director of the OFM in the summer. The budget requests are revised and evaluated by the Director of the OFM and his or her staff, and alternative methods of delivering services are examined and evaluated. Following this evaluation, recommended budget levels are prepared for the Governor by the Director of the OFM. These recommendations, based on the goals and objectives of the administration, are the result of an examination of the relative merits of each program, projections of caseload, enrollment and population statistics, an assessment of the state’s overall priorities, and the availability of revenue. The OFM has the responsibility for calculation of the expenditure limit each November.

Budget tables and statistics provided by the OFM for inclusion in this Official Statement are based on generally accepted accounting principles (“GAAP”). GAAP provides that the recognition and inclusion of revenues occur when they are measurable and earned, regardless of when the funds are received. Given the nature of the state’s revenue collection, on an accrual basis revenues are available for expenditure prior to receipt. Recognizing that the expenditure of funds prior to receipt of offsetting revenue would erode the state’s cash balance, the Legislature enacted laws which limited the expenditure of funds to the amount of revenue actually received or money on deposit over the course of the biennium. These limitations do not apply to the state’s general obligation bonds.

The Governor reviews the OFM’s operating budget recommendations and accepts or modifies them. Following final decisions by the Governor the budget document is published as the Governor’s budget and presented to the Legislature for consideration in December of even-numbered years. The formal budget

presentation to the Legislature is delivered by the Governor the following January during the first week of the legislative session. This presentation outlines the administration's primary goals and offers recommendations for the adoption of the budget to achieve those objectives.

Subsequent to the introduction of revenue and expenditure measures that embody the Governor's proposed operating budget, the Legislature engages in extensive budget deliberations and committee hearings. Legislative authorizations of long-term debt also are considered to finance a portion of the capital budget. Upon adoption of revenue and expenditure legislation by the House of Representatives and the Senate, the bills are transmitted to the Governor, who has constitutional authority to veto sections of the bills and append in writing the reasons therefor.

During a biennium, supplemental budget requests may be submitted to the Legislature during either the regular annual session or any extraordinary session, subject to the approval of the Governor.

Accounting. The state's accounting records are maintained in conformance with GAAP, as promulgated by the Governmental Accounting Standards Board ("GASB"). GAAP accounting is mandated by RCW 43.88.037. The state's Comprehensive Annual Financial Report ("CAFR") is accounted on a GAAP basis. The accounting system produces monthly financial statements at the state-wide combined level and at the agency level, which are used in the preparation of the state's fiscal year CAFR, including its 2003 CAFR. The state's fiscal 2003 CAFR contains Annual Financial Statements prepared in accordance with GAAP as promulgated by GASB (the "2003 Annual Financial Statements"), a copy of which has been filed with each nationally recognized municipal securities information repository ("NRMSIR"). Excerpts from the state's 2003 CAFR are attached as Appendix E. Copies of the state's entire 2003 CAFR are available on the Office of Financial Management's website at <http://www.ofm.wa.gov/cafr/2003/cafr03toc.htm> or upon request from the Office of the State Treasurer.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for its CAFR for each of the Fiscal Years 1987 through 2002. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the content of which conforms to program standards. Such reports must satisfy both GAAP and applicable legal requirements.

Fiscal Controls. To ensure that the budget remains in balance, fiscal controls are exercised during the biennium through an allotment process, which requires each agency to submit a monthly expenditure plan. This expenditure plan must be approved by the OFM and provides the authority for agencies to spend funds within statutory maximums specified in the legislatively adopted budget. Reports are available that compare actual agency expenditures to estimates.

The current biennium began July 1, 2003. State law requires a balanced biennial budget. If at any time during the fiscal period the Governor projects a cash deficit because disbursements will exceed the aggregate of estimated receipts plus beginning cash surplus, the Governor is required to make across-the-board reductions in allotments in order to prevent a cash deficit, thereby reducing expenditures of appropriated funds, unless the Legislature has directed the liquidation of the cash deficit over one or more fiscal periods. Across-the-board reductions occur only in those funds estimated to have a cash deficit. For example, if the General Fund-State were projected to have a deficit, the portion of an agency's budget provided by the General Fund-State would be subject to reduction. Across-the-board reductions are placed in reserve status until needed to avert a budget deficit; if the deficit does not materialize, the across-the-board reductions are returned to the agencies.

Debt Issuance Policy

All state general obligation debt and other evidence of indebtedness is authorized by the Legislature and issued under the authority granted to the Committee by the Legislature.

In May 1996, the Committee adopted a Debt Issuance Policy that, among other things, addresses the roles and responsibilities of the Committee and the State Treasurer, standards of conduct and appointment of professional service providers. The Debt Issuance Policy also addresses methods of sale, appointments of underwriters, pricing and allocation of negotiated sales, and refunding savings thresholds.

Under “Conditions of Sale,” the Debt Issuance Policy generally calls for (i) level debt service, i.e. approximately equal amounts per year, (ii) fixed interest rates and (iii) debt life shorter than or equal to estimated useful life of the facility financed. These conditions may not apply in all cases.

State Investment Programs

The State Treasurer’s Office is responsible for the investment management of the state’s operating funds totaling approximately \$2 billion to \$3 billion from time to time through its Treasurer’s Cash Management Account (the “CMA”). The Treasurer also is responsible for administering the Washington State Local Government Investment Pool (the “LGIP”), an approximately \$5 billion fund that invests money on behalf of more than 400 cities, counties and special municipal districts.

Permissible investments for both funds include U.S. government and agency securities, bankers acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposits with qualified state depositories.

Treasurer’s Cash Management Account. The CMA is a nonvoluntary pool of state agency funds; agencies are not permitted to make discretionary withdrawals for alternative investment purposes. The CMA may invest in securities with maturities out to ten years. The average life of the CMA generally ranges from one to two years.

In its management of the CMA pursuant to the Investment Policy adopted by the State Treasurer in January 2001, the State Treasurer sets its investment objectives pursuant to modern portfolio theory. To manage state funds more efficiently and effectively, the State Treasurer’s CMA investments are separated into two portfolios, each with its own risk objectives. The policy sets forth, *inter alia*, the practices, procedures and restrictions applicable to the investment of funds and specifically denominates eligible investments and certain restrictions on portfolio composition. Internal controls and reporting requirements are mandated by the Investment Policy to allow for oversight and monitoring of performance.

Local Government Investment Pool. The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to take advantage of the economies of scale inherent in pooling. It also is intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than otherwise would be available to them. The LGIP is a conservatively managed, highly liquid pool comparable to a SEC Rule 2a-7 money market fund, restricted to investments with maturities of 397 days or less. The average life generally ranges from 30 to 60 days.

The LGIP adheres to the traditional principles applicable to the prudent investment of public funds, which are, in order of priority: (i) the safety of principal, (ii) the assurance of sufficient liquidity to meet cash flow demands and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, both the CMA and the LGIP have had sufficient liquidity to meet all cash flow demands.

Asset Liability Management

Up to ten percent of the state’s total general obligation debt may be in variable rate form under a policy adopted by the Committee in July 1995. The purpose of this feature of debt management policy is to coordinate state debt and investment practices through asset liability management, which is defined as the management of the exposure to interest rate risk through active management of certain financial elements of

the state's balance sheet. Coordinating the management of state debt and state investment is expected to reduce the volatility and the impact of interest rate changes in the General Fund-State.

Historically, state debt has been issued in long-term, fixed-rate form, while state investments have been made on a short-term basis. The issuance of some variable rate debt is intended to provide a closer match of interest expense to interest income.

State Economic and Revenue Forecasting Process

To assist in its financial planning, the state prepares quarterly economic forecasts derived from national econometric models. The Legislature, through enactment of Chapter 138, Laws of 1984 (RCW 82.01.130), established the Office of Forecast Council (the "Forecast Council") in the Department of Revenue, and in 1990, the Legislature established the Forecast Council as an independent body. The Forecast Council consists of six members, two appointed by the Governor and two appointed from each of the political caucuses of the Senate and House of Representatives. The Forecast Council approves the official revenue forecast for the state. The Forecast Council law requires a review of financial performance eight times during the biennium and requires action if changing economic conditions affect the budget. This "early warning" system gives policy makers time to reduce expenditures or raise taxes during economic downturns and provides the option of increasing financial reserves or dealing with emergent spending needs in periods of economic growth.

In mid-February (or March in odd-numbered years), June, September, and November, subject to the approval of the Forecast Council, the forecast supervisor uses forecasts of the U.S. economy to prepare an official state economic and revenue forecast and two unofficial forecasts, one based upon optimistic economic and revenue assumptions and one based upon pessimistic economic and revenue assumptions. The groundwork for these quarterly forecasts is undertaken in conjunction with the results of monthly state revenue collections, using a formally created economic and revenue forecast workgroup. This group consists of lead staff members representing the Department of Revenue and the OFM, as well as staff representatives of the legislative fiscal committees.

The quarterly forecast process starts with a preliminary review of the Forecast Council's findings by the workgroup. At approximately the same time, the Governor's Council of Economic Advisors is convened to provide a view of the state and national economy from outside state government. These views and cumulative and recent revenue performance are taken into account in the preparation of forecast scenarios. The Forecast Council meets to consider the economic outlook and, after a two-week interval, considers the revenue forecast and pessimistic and optimistic projections.

The state forecast by the Forecast Council that is discussed and analyzed in this Appendix A is the state forecast that was released in February 2004. This forecast is the basis for the projections described under "Summary of Recent and Projected Operating Results" and "Outlook for the 2003-05 and 2005-07 Biennia." The next forecast will be released on or about June 17, 2004. Copies of the report and subsequent reports may be obtained from the Office of Economic and Revenue Forecast Council (www.wa.gov/ofc).

SUMMARY OF RECENT AND PROJECTED OPERATING RESULTS

The following tables display projected revenues and expenditures for the 2001-03 and 2003-05 Biennia. Revenues and expenditures for the 2001-03 Biennium are based on actual revenues and expenditures.

Revenues for the 2003-05 Biennium are based on the February 2004 Forecast. Expenditures for the 2003-05 Biennium are based on the 2003-05 Biennial Budget passed by the Legislature in June 2003 and signed by the Governor on June 26, 2003. The outlook for the 2003-05 Biennium immediately follows the tables.

**WASHINGTON STATE REVENUE
MODIFIED ACCRUAL BASIS
(in Millions)**

	2001-03 Biennium Actual	2003-05 Biennium Estimate ⁽¹⁾
Beginning General Fund-State Balance	\$ 599	\$ 405
GENERAL FUND-STATE REVENUE		
Retail Sales and Use Taxes	\$ 11,740	\$ 12,714
Real Estate Excise	873	999
Business and Occupation	3,791	4,126
Property Tax	2,645	2,754
Other Taxes	<u>1,775</u>	<u>1,981</u>
Subtotal Tax Revenue	\$ 20,824	\$ 22,575
Other Nontax Revenue	375	354
Other Financing	(57)	(31)
Transfers from Other Funds into State General Fund	1,064	139
Federal Fiscal Relief (Grant Portion)	100	90
Changes in Reserves/Other Adjustments	<u>49</u>	<u>18</u>
TOTAL GENERAL FUND-STATE REVENUE ⁽²⁾	<u>\$ 22,953</u>	<u>\$ 23,550</u>
Federal Revenue	\$ 9,749	\$ 10,453
Private/Local Revenue	<u>501</u>	<u>558</u>
TOTAL GENERAL FUND-STATE REVENUE	<u>\$ 33,204</u>	<u>\$ 34,560</u>

(1) Based on the February 2004 General Fund-State Revenue Forecast.

(2) Including balance from previous biennium.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

**WASHINGTON STATE EXPENDITURES
MODIFIED ACCRUAL BASIS
(in Millions)**

	2001-03 Biennium Actual⁽¹⁾	2003-05 Biennium Estimate ⁽²⁾
GENERAL FUND-STATE EXPENDITURES		
Education		
Public Schools	\$ 9,891	\$ 10,105
Higher Education	2,732	2,667
Other Education	54	40
Total Education	\$ 12,677	\$ 12,812
Human Services		
Department of Social and Health Services	\$ 6,218	\$ 6,605
Federal Fiscal Relief—FMAP	(38)	(108)
Department of Corrections	1,092	1,164
Other Human Services	162	164
Total Human Services	\$ 7,435	\$ 7,825
Natural Resources and Recreation	\$ 333	\$ 297
Governmental Operations	387	411
Other Expenditures ⁽³⁾		
Debt Service	\$ 1,211	\$ 1,249
Other Expenditures	507	378
Total Other Expenditures	\$ 1,718	\$ 1,627
TOTAL GENERAL FUND-STATE EXPENDITURES	\$ 22,545	\$ 22,972
Federal	\$ 9,749	\$ 10,453
Private/Local	501	558
TOTAL GENERAL FUND-STATE EXPENDITURES	\$ 32,799	\$ 33,983
Ending General Fund-State Balance	\$ 405	\$ 577
Emergency Reserve Fund Account Including Investment Earnings Not Reflected in the Revenue Forecast	\$ 58	\$ 0
Total Ending General Fund-State Balance plus Emergency Reserve Account	\$ 462	\$ 577

(1) Based on the 2001-03 Budget as amended by the 2002 and 2003 Supplemental Budgets that were passed by the Legislature and signed by the Governor.

(2) Based on the 2003-05 Budget as passed by the Legislature and signed by the Governor.

(3) Includes legislative, judicial and transportation agencies, as well as Debt Service and Retirement Contributions to LEOFF and Judges and Judicial Retirement System.

Note: Totals may not add due to rounding.

Source: Office of Financial Management

OUTLOOK FOR THE 2003-05 AND 2005-07 BIENNIA

U.S Economic Forecast

The February 2004 economic and revenue forecast was produced prior to the advance gross domestic product (“GDP”) estimate for the fourth quarter of 2003. According to the forecast, real GDP grew at a 4.7 percent rate in the fourth quarter of 2003, down from 8.2 percent in the third quarter. The forecast assumed that final sales grew at an even weaker 3.7 percent rate as inventory accumulation turned positive. Much of the slowdown in GDP growth was due to consumer spending, which rose an estimated 3.0 percent in the fourth quarter, down from 6.9 percent in the third quarter. Consumer spending on durables rose a moderate 3.5 percent, following a 28.0 percent increase in the previous quarter. The slowdown in consumer durables was mainly due to a significant swing in spending on motor vehicles and parts, which declined 3.6 percent in the fourth quarter after a 39.7 percent increase in the third quarter. Fixed investment spending growth also slowed in the fourth quarter to 7.9 percent from 15.7 percent in the third quarter, mainly as a result of a decline in equipment and software growth from 17.6 percent to 7.5 percent.

Employment grew in the fourth quarter for the first time in a year, though only at a 0.6 percent rate, while the unemployment rate fell to 5.87 percent from 6.13 percent in the third quarter. Inflation, as measured by the Consumer Price Index, slowed to 0.9 percent in the fourth quarter from 2.3 percent in the third quarter, due largely to falling energy prices. Core inflation (excluding food and energy) declined more moderately, from 1.5 percent to 1.1 percent. The housing market remained very strong in the third quarter. Housing starts increased 37.4 percent to 2.040 million units, while the mortgage rate declined slightly to 5.93 percent from 6.01 percent. As expected in the forecast, the Federal Open Market Committee (“FOMC”) left its target interest rate unchanged at 1.00 percent at its January meeting.

Measured by GDP growth alone, the U.S. economy is in good health. GDP growth approached 6.5 percent in the second half of the year, the best half-year performance in nearly two decades. Inflation is dormant, interest rates are low, productivity is increasing, profits are strong, exports are on the rise, the stock market is approaching a two-year high, and the unemployment rate, at 5.7 percent, is only a tick above its long-term average of 5.6 percent. Only one critical element is absent—new jobs. Measured by job growth, the more meaningful measure to most individuals, the economy is still weak. A few months ago, employment seemed to be convincingly on the rise. But the low 1,000 increase in payroll jobs during December brought that assumption into question. On a calendar year basis, GDP growth is expected to increase from 3.2 percent in 2003 to 4.7 percent in 2004 as the recovery picks up momentum. GDP growth is expected to slow during the next three years to 4.0 percent, 3.4 percent and 3.3 percent as the economy approaches its potential. Though the official recovery is now more than two years old, GDP growth has been too weak to generate net job growth. The forecast assumes this is about to change. The high rate of productivity growth, which has allowed GDP to grow while employment shrinks, is unsustainable and future gains in output will require at least some net hiring. The forecast assumes employment growth will improve from -0.2 percent in 2003 to 1.5 percent in 2004 and 2.6 percent in 2005, slowing to 1.7 percent in 2006 and 1.4 percent in 2007. The unemployment rate, which rose from 3.98 percent in 2000 to 5.99 percent in 2003, is expected to decline gradually to 5.65 percent this year and 5.30 percent, 5.29 percent, and 5.27 percent in the following three years. Inflation, as measured by the implicit price deflator for personal consumption expenditures, accelerated to 1.8 percent in 2003 from 1.4 percent in 2002 as a result of higher energy costs. Core inflation fell from 1.7 percent in 2002 to 1.2 percent in 2003. Excess capacity in the economy should keep inflation moderate for the next few years. The forecast expects inflation rates of 1.1 percent in 2004, 1.4 percent in 2005, 1.8 percent in 2006, and 2.2 percent in 2007. The forecast assumes that there will be no further cuts in the federal funds rate during this cycle. The FOMC is expected to begin tightening again in the second half of this year.

Washington State Economic Forecast

Washington's payroll employment rose 0.9 percent in the fourth quarter of 2003, following a 1.2 percent increase in the third quarter. The state's economy has not entirely recovered, however. Employment declined in the previous two quarters and, over the year, growth was only 0.3 percent. Manufacturing employment fell at a 4.6 percent annual rate in the fourth quarter, the twenty-second consecutive decline in overall manufacturing employment, excluding the impact of the February 2000 aerospace labor dispute. Aerospace employment fell at a 10.8 percent annual rate in the fourth quarter as Boeing's layoffs continued. Washington aerospace employment is now down 29.1 percent since September 11, 2001, and 44.8 percent since the 1998 peak. Manufacturing employment other than aerospace fell 2.6 percent in the fourth quarter. Construction employment continued to grow in the fourth quarter, rising at a 5.6 percent annual rate. Information employment was also strong in the fourth quarter, rising at a 4.2 percent rate due to an increase in software publishing employment. Professional and business services also grew 4.2 percent in the quarter, mainly as a result of an increase in employment services. Education and health services employment and government employment both rose at a 3.3 percent rate in the fourth quarter. However, leisure and hospitality employment fell 4.9 percent in the fourth quarter.

Washington's personal income in the third quarter of 2003 was \$2.531 billion (1.2 percent) higher than the estimate made in November. Most of the difference was attributable to wages, which were \$2.226 billion (1.9 percent) higher than expected. Software wages were \$1.513 billion (20.4 percent) higher than expected in November, while non-software wages were \$0.713 billion (0.7 percent) higher. Nonwage personal income was also \$0.305 billion (0.3 percent) higher than expected in the November forecast.

The number of housing units authorized by building permits in Washington fell 4,300 in the fourth quarter to an annualized rate of 41,000 from 45,300 in the third quarter. The decline was more than accounted for by the volatile multi-family market, however, which fell 4,500 to 6,900. Single family permits actually increased by 200 to 34,000. Single family permits in 2003 were the highest since 1998.

The Washington State forecast reflects the slightly stronger growth in the new U.S. forecast. The Washington aerospace employment forecast is not as weak in the first quarter of 2004, but otherwise is essentially unchanged. The forecast expects a decline of 2,100 during 2004 before a modest recovery begins in 2005, which adds 11,200 by the end of 2007. Though software wages probably fell sharply in the fourth quarter due to a decline in stock option activity, the software wage assumption for 2004 and 2005 is virtually identical to the assumption made in November. The forecast still assumes there will be no major fluctuations in Microsoft stock option activity in the future. The software employment forecast assumes an increase of about 4,000 employees per year through 2007.

Washington nonfarm payroll employment stabilized in 2003, rising 0.2 percent following declines of 0.5 percent and 1.6 percent in 2001 and 2002. The recovery in Washington is expected to be unusually slow. The forecast expects only a weak national recovery and no Boeing upturn until 2005. Population growth has slowed significantly, and both wage growth and price growth have been dampened by the prolonged contraction. The forecast calls for an employment growth rate of just 1.5 percent in 2004. Growth is expected to improve to 2.5 percent in 2005 as the recovery picks up steam, before slowing to 2.1 percent and 2.0 percent in 2006 and 2007. Washington personal income growth improved from 3.4 percent in 2002 to 4.0 percent in 2003. Personal income growth is expected to remain moderate at 4.5 percent in 2004, due to the weak national economy and continued Boeing layoffs, but should improve in the next three years to 5.4 percent, 6.0 percent, and 6.6 percent as the recovery gains momentum. On the downside, the housing frenzy is expected to subside. Housing permits increased 3,000 in 2003 to 43,200. The current pace of housing activity is unsustainable, given the weak population growth Washington is experiencing. Slightly stronger population growth should boost multi-family activity, but higher mortgage rates will lead to even larger declines in the single family market. As a result, housing is

expected to decline during the next three years. The forecast expects housing permits to total 40,900 in 2004, 40,600 in 2005, and 39,200 in 2006 before rebounding to 40,500 in 2007.

Alternative Economic Forecasts

The Washington State Economic and Revenue Forecast Council also provided an optimistic forecast and a pessimistic forecast in February 2004.

Pessimistic Forecast. The pessimistic alternative assumes that companies continue to substitute capital for labor and also use capital to substitute foreign labor for domestic labor. As employment growth lags, consumer sentiment fades. Without job creation, income growth slows, leading to more subdued consumer spending than in the baseline. Times are made more difficult by persistently high oil prices stemming from chronic difficulties in getting oil out of Iraq and steadily rising demand in China. Businesses continue to invest, but at a slower pace than in the baseline, in recognition of greater uncertainty about the strength of the expansion. Hiring picks up, but not enough to prevent the unemployment rate from stagnating at 6 percent through most of 2004 and into 2005. Profits stagnate in early 2005, causing the stock market to slip and putting a further dent in consumer spending. At the state level, aerospace production and employment cuts are even more severe and protracted than assumed in the baseline forecast. Data revisions show that the initial level of Washington personal income is lower than was assumed in the baseline. Population growth is also slower in this scenario, and construction employment begins to drop sharply again in 2004. Because of the weak economy, Washington wage growth is substantially less than in the baseline. Seattle inflation is slightly higher than in the baseline in 2004, only because oil prices are higher. After that, Seattle inflation is lower in the pessimistic forecast. By the end of the 2003-05 Biennium, Washington nonagricultural employment is lower by 46,800 jobs than the baseline forecast, and Washington personal income is \$8.1 billion lower. The pessimistic scenario produced \$589 million (2.6 percent) less General Fund-State revenue in the 2003-05 Biennium than did the baseline forecast.

Optimistic Forecast. With robust growth in the baseline forecast, an optimistic forecast might seem superfluous. Nonetheless, there is clear upside potential for growth from many sources. The optimistic scenario assumes that foreign economic growth and business spending on equipment and software are stronger than in the baseline. It also assumes more robust consumer spending and a more delayed slowdown in the housing sector than in the baseline. This optimistic scenario also assumes that total factor productivity growth—which roughly measures the rate of technological change—grows faster than it does in the trend over the next two years. The combination of higher investment and faster technological growth raises potential GDP permanently above the baseline level. With capacity greater, inflation is lower. At the state level, the optimistic forecast assumes that the long slide in aerospace employment is over. Aerospace employment is flat in 2004 and begins a vigorous expansion in 2005. Washington's wages grow faster than in the baseline and so does the Seattle CPI. The initial level of Washington personal income is also higher in the optimistic scenario, and population growth and construction employment growth are stronger. By the end of the 2003-05 Biennium, Washington nonagricultural employment is higher by 37,900 jobs than in the baseline forecast, and Washington personal income is \$6.7 billion higher. The optimistic scenario generated \$533 million (2.3 percent) more in revenue in the 2003-05 Biennium than did the baseline forecast.

Budgetary Outlook

For the 2001-03 Biennium, General Fund-State revenues were \$21.141 billion, a decrease of less than one percent from the 1999-01 Biennium, plus a carry-forward of \$599 million. This figure included \$25 million in tax reductions that are the result of the passage by the state's voters of Initiative 747, which limits property tax increases. Another \$9 million of revenue shifted from the General Fund-State to other funds based upon the voters' passage of Initiative 773, which earmarks tobacco taxes for low-income health programs. The 2002 Supplemental Budget included additional net revenue of \$88 million, including \$24 million for the new Mega-Millions multi-state lottery, recovery of \$46 million of existing

taxes owed to the state by hiring additional tax auditors, \$27 million in additional use taxes, and several small revenue reductions. The 2003 Supplemental Budget added an additional \$9 million in transfers from other accounts. The balance sheet has also been updated to add \$49 million in adjustments, which are mostly prior biennium recoveries.

With the passage of the 2003 Supplemental Budget, the operating budget for the 2001-03 Biennium calls for an overall expenditure level of \$22.6 billion for General Fund-State, which is an increase of \$1.8 billion or 8.9 percent over the 1999-01 Biennium. This is among the smallest of the biennial growth rates in the past decade, and is within the \$23.22 billion expenditure limit imposed by Initiative 601.

For the 2003-05 Biennium, General Fund-State revenues were projected to be \$22.897 billion, an increase of 7.7 percent from the 2001-03 Biennium, plus a carry-forward of \$405 million. This figure includes \$78 million in a new nursing home quality fee, \$237 million in property tax diversion kept in the General Fund, rather than being deposited in the Student Achievement Account, \$25 million in aerospace industry tax reductions, \$52 million in budget-driven revenue realized by the addition of revenue auditors in the Department of Revenue, and another \$104 million for other revenue legislation, including \$59 million in penalties, and \$35 million in unclaimed property. Another \$141 million shift of revenue from other funds was deposited into the General Fund. The balance sheet has also been updated for \$18 million in adjustments, which again are attributable to prior biennium recoveries.

The operating budget for the 2003-05 Biennium calls for an overall expenditure level of \$22.9 billion for General Fund-State, which is an increase of \$374 million or 1.7 percent over the 2001-03 Biennium. This is the smallest of the biennial growth rates in the past decade, and is within the \$23.67 billion expenditure limit imposed by Initiative 601.

In the 2003-05 Biennium, 55 percent of the General Fund-State budget will go to support public schools and higher education. Most of the \$250 million increase in public school funding covers the increased cost of teacher and staff health benefits, with about \$29 million provided for beginning teacher salary increases and \$29 million for increases in K-12 enrollment. The budget includes an increase of nearly a billion dollars in total funding (all funds) for higher education. The funding provides for at least 1,800 student enrollment increases in public universities and colleges, and a \$26 million increase in need grants. Also in the budget is an increase of \$15 million for salary adjustments to university and college faculty and staff, including funding for faculty retention pay increases, and to part-time faculty at the community and technical colleges intended to address pay disparities. An additional \$38 million is provided to cover the increased cost of employee health benefits.

The spending for human service delivery systems provided by the Department of Social and Health Services makes up approximately 27 percent of the state budget. Washington's WorkFirst program has helped more than 132,000 people get off and stay off welfare since the program began in 1997. Welfare caseloads have dropped by 42 percent and the percentage of the state's population on welfare is at the lowest point in more than 30 years. Most program participants who go to work earn between \$7 and \$8 an hour. The largest increase in the Human Services budget was made in the Medical Assistance Program, where \$244 million in funding was added to cover medical inflation and the increasing caseload and per capita costs.

There is no funding in the budget for an across-the-board salary increase for state employees, but \$47 million is provided to cover health benefit increases for state employees. Funding for Initiative 732 (K-12 teacher and staff salary increases) and Initiative 728 (K-12 class size) was suspended for the 2003-05 Biennium in light of the budget deficit that had to be resolved to bring the budget into balance.

The following tables provide the General Fund-State budget for the 2001-03 and 2003-05 Biennia.

2001-03 BIENNIUM
GENERAL FUND-STATE BUDGET
(Modified Accrual Basis)
(in Millions)

Beginning Fund Balance	\$ 599
Revenue	
June 2001 Forecast	\$ 22,099
September 2001 Forecast Change	(95)
2001 Legislative Changes	18
November 2001 Forecast Change	(779)
Initiative 747 Limits on Property Tax Increases	(25)
Initiative 773 Tobacco Taxes for Low Income Health and Other Programs	(9)
February 2002 Forecast Update	(266)
Estate Tax, Legal Interpretation	19
2002 Legislative Changes	93
June 2002 Forecast	85
September 2002 Forecast	(34)
November 2002 Forecast	20
March 2003 Forecast	37
June 2003 Forecast	(1)
September 2003 Forecast	(20)
November 2003 Forecast	(1)
Total Revenue	\$ 21,141
Transfers to General Fund from Health Services Account and Other Accounts	1,164
Changes in Reserves and Other Adjustments	49
Total Sources	\$ 22,953
Total Expenditures	\$ 22,549
Ending General Fund-State Balance	\$ 405
Emergency Reserve Fund Account Balance	58
Ending 2001-03 Balance Including Emergency Reserve Account	<u>\$ 462</u>

Source: Office of Financial Management

Note: Totals may not add due to rounding.

**2003-05 BIENNIUM
GENERAL FUND-STATE BUDGET
(Modified Accrual Basis)
(in Millions)**

Beginning Fund Balance	\$ 405
Revenue	
June 2003 Forecast	\$ 22,295
2003 Legislative Changes	587
September 2003 Forecast	15
November 2003 Forecast	65
February 2004 Forecast	76
Changes in Reserves and Other Adjustments	<u>18</u>
Total Sources	\$ 23,461
Total Expenditures	<u>\$ 22,973</u>
Ending General Fund-State Balance	\$ 488
Emergency Reserve Fund Account Balance	0
Additional Federal Funding (Assumed to Replace General Fund-State Appropriations)	\$ 100
Less Local Government Assistance Appropriations	<u>\$ (10)</u>
Revised Ending General Fund-State Balance	<u><u>\$ 577</u></u>

Source: Office of Financial Management

Note: Totals may not add due to rounding.

State Transportation Budget

The Legislature passed the state transportation budget for the 2003-05 Biennium on April 26, 2003, and the Governor signed the bill on May 19, 2003. The total \$4.8 billion budget bill contained funding for \$2.9 billion in capital expenditures, including \$2.6 billion for the Department of Transportation capital funding for roads, bridges, ferries, rail, and transit improvements. The bill also contained funding for the Washington State Patrol, the Department of Licensing and other transportation agencies.

The state gas tax historically has been pledged for debt service retirement of transportation bonds. An increase in the state gas tax to 28 cents per gallon went into effect on July 1, 2003.

CAPITAL BUDGET AND STATE DEBT

State Capital Budget

The state's 2003-05 biennial capital budget adopted by the 2003 Legislature provided for \$2.57 billion expenditures in new projects. Of this total, \$1.35 billion in expenditures are to be funded from the sale of general obligation bonds that are subject to the state's statutory debt limit.

The 2003-05 biennial capital budget provides for \$798 million for higher education projects, \$540 million for K-12 education and \$386 million for natural resource projects. Other capital funds are divided across the remaining state governmental functions.

General Obligation Debt

General Obligation Debt Authority. The State Constitution and enabling statutes authorize by three different means the incurrence of state general obligation debt, the payment of which is secured by a pledge of the state's full faith, credit and taxing power:

- (i) by the affirmative vote of 60 percent of both houses of the Legislature, without voter consent (in which case the amount of such debt is generally but not always subject to both constitutional and statutory limitations; see "General Obligation Debt Limitations" below);
- (ii) by the affirmative vote of 50 percent of both houses of the Legislature and a majority of the voters voting thereon (in which case the amount of the debt so approved is not subject to other constitutional limitations, but is subject to statutory limitations; see "General Obligation Debt Limitations" below); or
- (iii) by a body designated by statute (currently the Committee) without limitation as to amount, without approval of the Legislature (except as to appropriation of the sums borrowed) and without the approval of the voters; however, such debt:
 - (a) may be incurred only to meet temporary deficiencies of the State Treasury, to preserve the best interests of the state in the conduct of the various state institutions, departments, bureaus, and agencies during each fiscal year;
 - (b) must be discharged, other than by refunding, within 12 months of the date of incurrence;
 - (c) may be incurred only to provide for appropriations already made by the Legislature; or
 - (d) may be incurred to refund outstanding obligations of the state.

The State Constitution also permits the state to incur additional debt to repel invasion, suppress insurrection or to defend the state in war.

General Obligation Debt Limitations. With certain exceptions noted below, the amount of state general obligation debt which may be incurred by the means described in the section entitled "General Obligation Debt Authority" above is limited by constitutional and statutory restrictions. The limitations in both cases are imposed by prohibiting the issuance of new debt if the new debt would cause the maximum annual debt service on all thereafter outstanding general obligation debt to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These are limitations on the incurrence of new debt and are not limitations on the amount of debt service which may be paid by the state in future years.

"General state revenues" is defined for purposes of the constitutional limitation as including all state money received in the State Treasury from each and every source whatsoever, with certain exceptions that include (i) fees and revenues derived from the operation of any facility; (ii) earmarked gifts, grants, donations, and aid; (iii) money for retirement system funds and performance bonds; (iv) money from trust funds, proceeds from sale of bonds or other indebtedness; and (v) taxes levied for specific purposes. For purposes of the statutory debt limitation, "general state revenues" also includes (i) revenues deposited in the state general fund that are derived from the state real estate excise tax in support of the common schools, (ii) the state lottery revenues, and (iii) revenues deposited in the state general fund and the student achievement fund that are derived from property taxes levied by the state for the support of common schools.

The constitutional and statutory limitations, which are overlapping, are summarized as follows:

- (i) *The Constitutional Limitation.* Under Article VIII, Section 1 of the State Constitution, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed nine percent of the

arithmetic mean of general state revenues for the preceding three fiscal years. Excluded from the calculation are the following types of general obligation debt:

- (a) debt payable primarily from excise taxes levied on motor vehicle fuels, income received from the investment of the permanent common school fund and revenue received from license fees on motor vehicles;
 - (b) debt which has been refunded;
 - (c) debt issued after approval of both houses of the Legislature and a majority of those voting in a general or special election;
 - (d) debt issued to meet temporary deficiencies in the State Treasury (described in “General Obligation Debt Authority” above);
 - (e) debt issued in the form of bond anticipation notes;
 - (f) debt issued to fund or refund debt of the State Building Authority (no longer in existence);
 - (g) debt issued to pay “current expenses of [S]tate government;”
 - (h) debt payable solely from the revenues of particular public improvements (revenue debt of the state), and
 - (i) any state guarantee of voter-approved general obligation debt of school districts in the state.
- (ii) *The Statutory Limitation.* Under chapter 39.42 RCW, new general obligation debt may not be issued if the new debt would cause maximum annual debt service on all thereafter outstanding general obligation debt to exceed seven percent (as contrasted with the nine percent limitation in the State Constitution) of the arithmetic mean of general state revenues for the preceding three fiscal years.

The percentage limitation and the general obligation debt excluded from calculation of the limitation under this state statute have changed from time to time. The types of general obligation debt currently excluded from the calculation are the same as those excluded from the calculation under the constitutional limitation with the following exceptions:

- (a) general obligation debt issued after approval of both houses of the Legislature and a majority of the voters, which is included rather than excluded as described above under “The Constitutional Limitation;”
- (b) general obligation debt issued prior to July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from money other than general state revenues or from special excise taxes imposed under chapter 67.40 RCW (“reimbursement bonds”);
- (c) general obligation debt issued after July 1, 1993, pursuant to statute which requires that the State Treasury be reimbursed for the full debt service on such debt from (1) moneys outside the State Treasury (except for higher education operation fees); (2) higher education building fees; (3) indirect cost recovered from federal grants and contracts; and (4) University of Washington hospital patient fees;
- (d) general obligation debt issued to finance certain improvements to the state capitol east plaza garage pursuant to RCW 43.99Q.070;
- (e) general obligation debt issued to finance the rehabilitation of the state legislative building to the extent such debt is paid from the capitol building construction account pursuant to RCW 43.99Q.140(2)(b); and

- (f) general obligation debt issued to finance transportation projects pursuant to Chapter 147, Laws of 2003, section 7.

Current General Obligation Debt Capacity. By applying the statutory limitation on general obligation debt, which is currently the more restrictive of the constitutional and statutory limitations, the state's estimated general obligation debt capacity (excluding Committee-authorized short-term debt described above) is calculated as follows:

Estimated arithmetic mean of general state revenues for fiscal years ending June 30, 2001, 2002, and 2003 (1)	\$ 9,132,655,000
7% of such arithmetic mean (maximum annual debt service on general obligation debt to be outstanding may not exceed this sum).....	\$ 639,285,850
Maximum annual debt service on outstanding general obligation debt (3/9/2004).....	\$ 612,872,694
Uncommitted portion of debt service limitation (3/9/2004).....	\$ 26,413,156
Remaining state general obligation principal debt capacity after sale of current and projected issues (assuming a 25-year amortization and an interest rate of 6.00% on future issues) (2)	\$ 337,648,776

- (1) Preliminary, subject to change. The arithmetic means of general state revenues for fiscal years ending a) June 30, 2000, 2001, and 2002, b) June 30, 1999, 2000, and 2001, c) June 30, 1998, 1999, and 2000, d) June 30, 1997, 1998, and 1999, and e) June 30, 1996, 1997, and 1998, were \$8,885,895,256, \$8,655,884,795, \$8,305,755,187, \$7,918,308,401, and \$7,559,859,280, respectively. Source: "Certification of the Debt Limitation of the State of Washington" for fiscal years 1999 through 2003.
- (2) The amount of debt that can be issued under this debt limitation calculation is subject to numerous factors, including state revenues, debt structure and interest rates, and may vary over time.

Use of Short-Term General Obligation Debt Authority (Certificates of Indebtedness and Bond Anticipation Notes). Chapter 39.42 RCW and the respective bond acts of the state delegate to the Committee the authority to issue, in the name of the state, temporary notes in anticipation of the sale of bonds. Pursuant to statutory authority and resolution of the Committee, such notes are general obligations of the state. Principal of and interest on such notes are excluded from the constitutional and statutory debt limitations. The state has no bond anticipation notes currently outstanding.

Article VIII of the State Constitution and chapter 39.42 RCW provide for the issuance of certificates of indebtedness to meet temporary deficiencies in the State Treasury. Such indebtedness must be retired other than by refunding within twelve months of the date of issue. Principal and interest on certificates of indebtedness is excluded from constitutional and statutory debt limitations. The state has no certificates of indebtedness currently outstanding and does not anticipate any external short-term borrowing during the current biennium.

Motor Vehicle Fuel Tax Obligations

As of March 9, 2004, there will be outstanding \$2,111,436,136 motor vehicle fuel tax bonds secured by a pledge of, and first payable from, excise taxes levied against motor vehicle and special fuels. Additionally, these bonds are secured by the full faith, credit and taxing power of the state. Such bonds are not subject to the constitutional or statutory debt limitation.

Motor Vehicle Fuel Tax Rates. Chapter 49, Laws of 1983, 1st Ex. Sess., established a motor vehicle fuel tax at a fixed cents-per-gallon rate. Effective April 1, 1990, the fuel tax was raised to 22 cents per gallon

from 18 cents. Effective April 1, 1991, the fuel tax was raised to 23 cents per gallon. Effective July 1, 2003, the fuel tax was raised to 28 cents per gallon.

Revenue Available for Debt Service. The following table presents the state's motor vehicle fuel excise tax collection experience at various rates per gallon, including a revenue projection of the 23 cents per gallon tax effective April 1, 1991, and the allocations of excise tax pledged for bond principal and interest payments.

	Revenue Pledge	County-City Allocation ⁽¹⁾	State Allocation ⁽²⁾
July 1, 1991 – June 30, 1992	\$610,681,244	\$81,153,690	\$305,143,075
July 1, 1992 – June 30, 1993	596,015,283	79,888,937	297,161,376
July 1, 1993 – June 30, 1994	614,890,069	82,418,884	306,571,969
July 1, 1994 – June 30, 1995	615,525,077	82,503,999	306,888,571
July 1, 1995 – June 30, 1996	655,427,980	87,887,898	327,133,159
July 1, 1996 – June 30, 1997	672,095,589	89,661,476	336,186,110
July 1, 1997 – June 30, 1998	688,474,782	91,846,557	344,379,077
July 1, 1998 – June 30, 1999	712,559,355	95,059,580	356,426,320
July 1, 1999 – June 30, 2000	721,684,773	96,276,797	365,130,833
July 1, 2000 – June 30, 2001	723,945,995	96,578,457	366,272,623
July 1, 2001 – June 30, 2002	720,305,001	96,092,728	364,429,773
July 1, 2002 – June 30, 2003	732,805,981	97,760,429	370,749,618
July 1, 2003 – June 30, 2004 ⁽³⁾	868,330,654	98,295,256	504,290,884

(1) Allocation of excise tax revenues first used for payment of debt service for county-city urban program (RCW 47.26.404, 47.26.4252, 47.26.4254, and 47.26.505).

(2) Allocation of excise tax revenues first used for payment of debt service for ferry vessels, State Route 90 and the state highway bonds.

(3) Department of Transportation forecast (November 2003).

Revenue Pledge and Distribution Percentages. Each legislative act authorizing the issuance and sale of motor vehicle fuel tax bonds provides that the principal of and interest on such bonds are secured by a pledge of the excise taxes levied on motor vehicle and special fuels imposed by chapters 82.36 and 82.38 RCW (formerly by chapters 82.36 and 82.40 RCW). That pledge constitutes a charge against the revenues from such motor vehicle and special fuels excise taxes equal to the charge of any other general obligation bonds of the state that have been and may hereafter be authorized that also pledge motor vehicle and special fuels excise taxes for their payment. By statutory provision the Legislature has covenanted to continue to levy that excise tax in amounts sufficient to pay, when due, the principal and interest on all of those bonds issued under the respective legislative authorizations. All motor vehicle fuel tax general obligation bonds of the state are further secured by a pledge of the full faith, credit and taxing power of the state. The act authorizing the issuance of refunding bonds requires, as to bonds to be refunded that are secured by motor vehicle fuel taxes, that the refunding bonds be secured by the same taxes in addition to the pledge of the state's full faith and credit and taxing power.

The Legislature has established a statutory scheme for the distribution and expenditure for various purposes of specified percentages of motor vehicle and special fuels excise taxes received in the motor vehicle fund. However, the Legislature has provided that nothing in those provisions may be construed to violate the terms and conditions of any highway construction bond issues authorized by statute and whose payment is by such statute pledged to be paid from any excise taxes on motor vehicle and special fuels. With the pledge of the aggregate of motor vehicle and special fuels excise taxes for payment of the principal of and interest on all motor vehicle fuel tax bonds currently authorized, that statutory scheme can be characterized as a mandate as to which portion of such excise taxes should first be used to transfer funds to the Highway and Ferry Bond Retirement Funds.

Sources of Repayment

The Legislature is obligated to appropriate money for state debt service requirements. Appropriations providing for the payment of bond principal and interest requirements on each series of bonds normally are included in the omnibus appropriation act or occasionally in another appropriation act of each biennial session. In addition, it has been the practice to provide in each omnibus appropriation act an appropriation of such additional money as may be required to satisfy bond covenants and laws for reserves, surplus funds and other “set-asides.”

Generally, each bond statute provides that on or before June 30 of each year the Committee shall certify to the State Treasurer the amount required for payment of bond principal and interest for the ensuing fiscal year. For bonds authorized before the First Extraordinary Session of the 1977 Legislature on July 1 (in some instances on June 30), the State Treasurer was required to transfer those funds from any state general revenues, component or dedicated revenues, depending on the revenue pledge, to the specified bond fund. For bonds authorized during the 1977 First Extraordinary Legislative Session and for all subsequent authorizations made prior to the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds not less than 30 days prior to the principal or interest payment date. For bonds authorized during and since the 1989 Legislative Session, the State Treasurer must transfer the funds necessary to pay debt service to the respective bond redemption funds on the principal or interest payment date.

The statutes(s) authorizing the bonds and other general obligations of the state require the Committee to certify annually the amount needed to provide for payment of debt service and require the State Treasurer to deposit “general state revenues” in such amount into the General Obligation Bond Retirement Fund from time to time. The term “general state revenues” is defined in Article VIII in the State Constitution. Not all money deposited in the General Fund-State constitutes general state revenues.

The following table presents general state revenues (statutory) for fiscal years since 1998:

GENERAL STATE REVENUES STATUTORY (in Millions)	
<u>Fiscal Year</u>	<u>General State Revenues</u>
2003	\$ 9,397.528
2002	8,942.343
2001	9,049.773
2000	8,655.570
1999	8,252.312
1998	7,999.384

Some general obligation bond statutes provide that the General Fund-State will be reimbursed from discrete revenues which are not considered general state revenues. For example, tuition fees charged by institutions of higher education must reimburse the General Fund-State for payment of debt service for a number of higher education construction bonds. Other similar reimbursement requirements apply to hospital patient fees (for University of Washington Hospital Construction Bonds) and lease-rental proceeds (for Washington State University Research Center Bonds). All of these required reimbursements have been made to date.

In addition, special hotel-motel tax proceeds collected in King County are pledged to reimburse the General Fund-State debt service payments for the 1983 State Convention and Trade Center Bonds.

For motor vehicle fuel tax bonds, at least one year prior to the date any interest is due and payable on those bonds or prior to the maturity date of any bonds, the Committee estimates, subject to the provisions of the pledge of revenue, the percentage of the monthly receipts of the motor vehicle fund resulting from collection of excise taxes on motor vehicle and special fuels that will be necessary to meet interest or bond payments when due. Each month as such funds are paid into the Motor Vehicle Fund, the State Treasurer must transfer

such percentage of the monthly receipts from excise taxes on motor vehicle and special fuels in the Motor Vehicle Fund to the Highway Bond Retirement Fund and the Ferry Bond Retirement Fund, the latter of which is to be used for payment of the principal of and interest on the state ferry bonds when due. If in any month it appears that the estimated percentage of money so transferred is insufficient to meet the requirements for interest and bond retirement, the State Treasurer must notify the Committee, and the Committee must adjust its estimates so that all requirements for interest and principal of all bonds issued will be fully met at all times.

The state retains and expects to continue to retain a minimum surplus of funds in the Highway Bond Retirement Fund pending the development of clear estimates of the consequences of energy conservation measures and more definite Department of Transportation revenue projections.

With respect to state ferry bonds, concurrent with the distribution of motor vehicle and special fuel tax revenue to the Ferry Bond Retirement Fund, the State Treasurer must transfer a like amount of funds from the Puget Sound Capital Construction Account to the Motor Vehicle Fund.

State Bonds Outstanding

The following table summarizes as of March 9, 2004, the state's general obligation bonds and general obligation bonds secured by motor vehicle fuel tax revenue.

General Obligation Bonds.....	\$ 7,252,059,278
Motor Vehicle Fuel Tax General Obligation Bonds.....	2,116,436,136
	<u>\$ 9,368,495,413</u>

An additional \$2,446,723,029 principal amount of general obligation bonds and \$3,655,958,864 principal amount of motor vehicle fuel tax general obligation bonds will be authorized but unissued as of March 9, 2004. Issuance of additional general obligation bonds is subject to constitutional and statutory debt limitations. By statute, additional general obligation bonds (with certain exceptions) may not be issued if, after giving effect thereto, maximum annual debt service would exceed seven percent of the three-year average of general state revenues. State motor vehicle fuel tax general obligation bonds and certain other bonds are not subject to that limitation.

The maximum annual debt service on all outstanding general obligation bonds is covered 12.91 times by general state revenues of \$9.398 billion for the fiscal year ending June 30, 2003. Coverage of the projected annual debt service on all outstanding motor vehicle fuel tax general obligation bonds is 5.26 times based upon estimated gasoline tax revenues of \$869.587 million for the fiscal year ending June 30, 2004.

Schedules

Schedules Nos. 1 through 3 on the following pages show debt service on outstanding and proposed general obligation bonds and motor vehicle fuel tax bonds and analyses of the various types of revenues pledged to secure these bonds.

**SCHEDULE NO. 1 (Combined — General State Revenues and Components,
Motor Vehicle Fuel Tax, and Other Revenues)**

TOTAL BONDS OUTSTANDING AND MARCH 9, 2004 BOND OFFERING

Fiscal Year Ending June 30th	Outstanding 3/9/2004 ⁽¹⁾		March 9, 2004 Bond Offering ⁽²⁾		Total ⁽³⁾
	Principal	Interest ⁽⁴⁾	Principal	Interest	
2004	\$ 39,755,000	\$ 26,908,567	\$ -	\$ -	\$ 66,663,567
2005	436,012,976	441,402,315	3,610,000	9,855,253	890,880,544
2006	437,744,229	420,035,831	1,380,000	12,078,113	871,238,173
2007	443,373,126	403,003,817	10,075,000	12,042,713	868,494,656
2008	448,224,536	379,164,283	13,710,000	11,639,713	852,738,532
2009	451,321,470	361,762,491	14,320,000	11,071,650	838,475,611
2010	429,393,927	343,730,347	14,935,000	10,457,775	798,517,049
2011	405,944,917	324,708,858	15,640,000	9,785,700	756,079,476
2012	393,019,362	309,646,246	16,350,000	9,081,900	728,097,508
2013	413,256,910	287,052,865	17,105,000	8,346,150	725,760,925
2014	431,687,820	264,275,752	17,875,000	7,576,425	721,414,997
2015	454,627,700	253,120,028	18,700,000	6,772,050	733,219,778
2016	464,758,414	246,575,504	19,540,000	5,930,550	736,804,468
2017	458,396,213	247,125,956	20,455,000	5,051,250	731,028,419
2018	433,585,241	224,878,331	21,375,000	4,130,775	683,969,347
2019	409,969,255	207,942,491	22,380,000	3,168,900	643,460,646
2020	387,354,236	195,517,505	23,455,000	2,161,800	608,488,541
2021	345,882,239	151,559,095	17,660,000	1,106,325	516,207,659
2022	335,054,398	114,475,202	6,925,000	311,625	456,766,226
2023	316,609,834	100,591,105	-	-	417,200,938
2024	296,392,536	87,389,462	-	-	383,781,998
2025	256,762,906	75,461,848	-	-	332,224,754
2026	223,364,202	64,110,314	-	-	287,474,516
2027	174,095,981	54,995,154	-	-	229,091,135
2028	113,737,755	49,375,225	-	-	163,112,980
2029	79,004,283	47,090,092	-	-	126,094,375
2030	13,675,948	43,929,053	-	-	57,605,000
2031	-	-	-	-	-
	<u>\$ 9,093,005,413</u>	<u>\$ 5,725,827,738</u>	<u>\$ 275,490,000</u>	<u>\$ 130,568,666</u>	<u>\$ 15,224,891,817</u>

Note: Totals may not add due to rounding.

(1) Outstanding Bonds by Revenue Pledge

	Principal	Interest
(a) General State Revenues.....	7,133,044,278	4,251,338,436
(b) Motor Vehicle Fuel Tax.....	1,959,961,136	1,474,489,301
Total Bonds Outstanding (after defeasance of the Refunded Bonds).....	<u>\$ 9,093,005,413</u>	<u>\$ 5,725,827,738</u>

(2) March 9, 2004 Bond Offering

(a) Series R-2004C, dated 3/9/2004.....	\$ 119,015,000	\$ 55,706,639
(b) Series R-2004D, dated 3/9/2004.....	156,475,000	74,862,027
Total Current Offerings.....	<u>\$ 275,490,000</u>	<u>\$ 130,568,666</u>

(3) Total Bonds Outstanding Following March 9, 2004 Offering.....	<u>\$ 9,368,495,413</u>	<u>\$ 5,856,396,404</u>
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(4) Interest payments are only estimates and are subject to change from time to time as market conditions change.

SCHEDULE NO. 2

SUMMARY - DEBT STRUCTURE BY REVENUE PLEDGE

General Obligation ⁽¹⁾

	6/30/2000	6/30/2001	6/30/2002	6/30/2003	3/9/2004 ⁽²⁾
<u>Outstanding</u>					
General State Revenues and Components					
General State Revenues	\$ 6,277,518,263	\$ 6,540,745,000	\$ 6,786,803,651	\$ 6,827,099,728	\$ 7,252,059,278
Retail Sales Tax Revenue	3,425,000	2,485,000	1,490,000	445,000	-
Subtotal	\$ 6,280,943,263	\$ 6,543,230,000	\$ 6,788,293,651	\$ 6,827,544,728	\$ 7,252,059,278
Motor Vehicle Fuel Tax Revenue	\$ 997,215,000	\$ 1,135,885,000	\$ 1,395,980,000	\$ 1,720,296,935	\$ 2,116,436,136
Total - Outstanding	\$ 7,278,158,263	\$ 7,679,115,000	\$ 8,184,273,651	\$ 8,547,841,664	\$ 9,368,495,413

Annual Debt Service Requirements

Fiscal Year	\$ 736,210,415	\$ 789,213,368	\$ 825,972,401	\$ 836,219,533	\$ 830,333,221
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Authorized -- Unissued

General State Revenues	\$ 1,259,883,029	\$ 1,697,723,029	\$ 1,196,003,029	\$ 2,033,548,029	\$ 2,446,723,029
Motor Vehicle Fuel Tax Revenue	2,409,820,000	2,253,275,000	1,915,200,000	1,514,793,065	3,655,958,864
Total - Unissued	\$ 3,669,703,029	\$ 3,950,998,029	\$ 3,111,203,029	\$ 3,548,341,094	\$ 6,102,681,893

Issued (New Money and Refunding)

Fiscal Year	\$ 874,562,819	\$ 1,345,245,000	\$ 1,017,470,000	\$ 1,528,646,935	\$ 1,624,334,200
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(1) No limited obligations debt are outstanding or authorized.

(2) Includes current offering dated March 9, 2004 -- after defeasance of the Refunded Bonds.

Note: Totals may not add due to rounding.

SCHEDULE NO. 3

TOTAL DEBT SERVICE REQUIREMENTS⁽¹⁾ by Pledge of Revenues

Fiscal Year Ending June 30th	General State Revenues (or Components)	Motor Vehicle Fuel Tax Revenues	Total Principal	Total Interest	Total Debt Service Requirements
2004	\$680,895,851	\$149,437,370	\$399,000,451	\$431,332,770	\$830,333,221
2005	727,909,651	162,970,893	439,622,976	451,257,568	890,880,544
2006	711,331,147	159,907,026	439,124,229	432,113,944	871,238,173
2007	709,241,597	159,253,059	453,448,126	415,046,530	868,494,656
2008	699,352,712	153,385,819	461,934,536	390,803,996	852,738,532
2009	673,002,437	165,473,175	465,641,470	372,834,141	838,475,611
2010	640,654,337	157,862,712	444,328,927	354,188,122	798,517,049
2011	605,820,205	150,259,271	421,584,917	334,494,558	756,079,476
2012	583,919,046	144,178,462	409,369,362	318,728,146	728,097,508
2013	578,311,932	147,448,993	430,361,910	295,399,015	725,760,925
2014	568,951,987	152,463,010	449,562,820	271,852,177	721,414,997
2015	580,925,126	152,294,652	473,327,700	259,892,078	733,219,778
2016	579,889,235	156,915,233	484,298,414	252,506,054	736,804,468
2017	568,368,749	162,659,671	478,851,213	252,177,206	731,028,419
2018	522,413,531	161,555,816	454,960,241	229,009,106	683,969,347
2019	482,105,044	161,355,602	432,349,255	211,111,391	643,460,646
2020	447,418,667	161,069,874	410,809,236	197,679,305	608,488,541
2021	364,912,903	151,294,756	363,542,239	152,665,420	516,207,659
2022	308,804,038	147,962,188	341,979,398	114,786,827	456,766,226
2023	281,884,109	135,316,829	316,609,834	100,591,105	417,200,938
2024	254,189,466	129,592,532	296,392,536	87,389,462	383,781,998
2025	203,835,409	128,389,344	256,762,906	75,461,848	332,224,754
2026	161,445,906	126,028,610	223,364,202	64,110,314	287,474,516
2027	117,685,625	111,405,510	174,095,981	54,995,154	229,091,135
2028	75,116,750	87,996,230	113,737,755	49,375,225	163,112,980
2029	48,707,000	77,387,375	79,004,283	47,090,092	126,094,375
2030	0	57,605,000	13,675,948	43,929,053	57,605,000
Total					\$15,988,561,470
			\$9,727,740,864	\$6,260,820,607	

(1) Includes current offering dated March 9, 2004 -- after defeasance of the Refunded Bonds.

Note: Totals may not add due to rounding.

SELECTED DEBT RATIOS

Debt Ratios

Year		State Debt Per Capita	State Debt/ Personal Income (Percentage)	Total Debt Service/ Personal Income (Percentage)	State Debt/ Market Value Taxable Property (Percentage)
2000	\$	1,247.83	3.94%	0.42%	1.62%
2001		1,286.49	4.01%	0.43%	1.56%
2002		1,389.88	4.24%	0.42%	1.58%
2003		1,460.84	4.33%	0.40%	1.58%
2004*		1,519.97	4.36%	0.41%	1.66%

Factors for the Debt Ratios

Year	Population ⁽¹⁾ (000)	Personal Income ⁽²⁾ (000,000)	Debt Service ⁽³⁾ (000)	Market Value Taxable Property ⁽⁴⁾ (000)	State Debt ⁽⁵⁾ (000)
2000	5,894.10	\$ 186,843	\$ 789,213	\$ 452,962,015	\$ 7,354,860
2001	5,974.90	191,644	825,972	492,681,068	7,686,649
2002	6,041.70	198,221	836,220	532,296,068	8,397,260
2003	6,098.30	205,915	830,333	563,600,366	8,908,653
2004*	6,163.60	214,884	890,881	563,600,366	9,368,495

(1) Population -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2003," Table A5.1.

(2) Personal Income -- Office of the Forecast Council, "Washington Economic and Revenue Forecast November 2003," Table A3.3.

(3) Debt Service -- Reported by the State Finance Committee for the ensuing fiscal year.

(4) True and fair market value (100%) as reported by the Department of Revenue for state taxes due and payable in calendar years 2000 through 2003 -- Department of Revenue, "Property Tax Statistics 2003," Table 24. Under current law, business inventories are exempt from any property tax.

(5) State Debt -- Reported by the Office of State Treasurer for December 31 each year. Outstanding as of March 9, 2004.

* Estimate.

State Bonded Debt by Source of Payments

General Obligation

Payable from General State Revenues	\$6,066,206,956 ⁽¹⁾	
First Payable from Other Sources	3,302,288,458 ⁽²⁾	
Limited Obligation	0	\$9,368,495,413

	General Obligation Debt		
	Payable From General State Revenues	First Payable from Other Sources	Total State Bonded Debt
Debt to True Market Value.....	1.08%	0.59%	1.66%
Per Capita Debt.....	\$1,004.06	\$546.58	\$1,550.64

(1) Outstanding bonds as of March 9, 2004.

(2) Certain state general obligation bonds are payable first from sources other than general state revenues (\$1,185,852,322 from tuition fees, patient fees, admissions taxes, parking taxes, certain King County sales and use taxes, or hotel and motel taxes) and are additionally full faith and credit obligations of the state.

OTHER OBLIGATIONS

Workers' Compensation Program

The Workers' Compensation Program insures approximately 70 percent of the work force in the state, excluding self-insured employers and their employees, against work-related accidents and medical claims. The program has three main components: Accident, Medical Aid and Supplemental Pension. Accident Fund premiums are paid by employers while premiums for the Medical Aid and Supplemental Pension Funds are shared equally by employers and employees. A separate pension fund sufficient to pay future pension obligations is established in the Accident Fund and not through separate premium assessments. The Supplemental Pension component covers both state fund and self-insured employees. The Accident, Medical Aid and Pension components are designed to be self-sustaining; assets are accumulated to fund future benefits.

The Supplemental Pension Fund was adopted by the Legislature in 1973 to provide inflation adjustment payments for time lost for the temporarily disabled and pension benefits for the permanently disabled. This plan operates on a current, "pay-as-you-go" basis. GAAP formerly required those liabilities be recorded as long-term debt and allowed expected employer and employee contributions to be shown as an asset. GASB now requires the Supplemental Cost of Living Benefit to be characterized as an obligation of the Workers' Compensation Fund, a special enterprise fund, but does not permit employer and employee future contributions to be shown as an offsetting asset. This accounting change has no impact on the fund's liability to pay supplemental cost of living benefits, nor does it affect its ability to make those payments. The potential future liability of the fund to pay all claims for Supplemental Cost of Living Benefits for all employees is estimated to be \$4.5 billion; however, the state's obligation to its own employees is substantially lower, and the state anticipates contributions from the private sector will be sufficient to satisfy all liabilities for nonpublic employees.

Certificates of Participation/Financing Contracts

The following table displays outstanding state certificates of participation/financing contracts as of January 1, 2004.

	Outstanding	2003-2005 Debt Service Requirement	Final Maturity
State Equipment Series C, 1994	255,000	521,834	2004
Master Installment Program, 1993	14,373,283	6,327,911	2016
Equipment Series, Competitive	71,728,174	40,829,347	2015
Local Real Estate	6,165,934	1,796,616	2017
Quarterly Combined	3,930,000	655,856	2016
Bellevue Community College, RE2003C	16,120,000	1,430,616	2023
Bellingham Technical College Classroom Additions	210,000	88,870	2008
Whatcom, Columbia Basin and Yakima CC, 2000A	4,795,000	942,180	2020
Bates Purch of Land and Improvement, KBTC TV	3,605,000	634,416	2020
Edmonds Community College	3,765,000	710,649	2018
Combined CC's 2001 A	5,450,000	1,659,878	2017
Combined CC's 2001 B	6,325,000	1,944,101	2015
Central Washington Snoqualmie Hall at Edmonds	4,970,000	772,205	2023
Work/Release Financing Agreement	-	128,281	2003
State Department of Corrections, 1998	1,695,929	756,914	2009
Department of Corrections Spokane- Brownstone	2,850,000	479,545	2021
Department of Ecology 2001 Refunding	41,490,000	10,381,075	2012
Department of Ecology 2003 Refunding	25,715,000	2,081,390	2016
State Department of Licensing, 1998	5,935,000	1,111,560	2018
State Department of Transportation, 1999	5,335,000	5,609,890	2005
Department of Veterans Administration	3,730,000	739,823	2016
Tacoma Co-location Project, Series 1996	13,625,000	2,704,068	2020
State Department of General Administration, 1999A	9,435,000	1,416,678	2022
State Department of General Administration, 1999B	7,760,000	1,469,849	2019
Kelso Building and Land, 2000	4,120,000	932,389	2015
General Administration, Isabella Bush Building	3,855,000	455,373	2018
Highline Community College 2003	12,455,000	631,255	2023
Pierce College Classroom Building	440,000	193,200	2008
Secretary of State Regional Archive Building	12,560,000	1,979,034	2018
South Puget Sound Community College, 1999	4,610,000	902,638	2020
The Evergreen State College , Childcare Center, 2003	1,675,000	375,747	2005
University of Washington, 1999	9,345,000	2,190,570	2021
University of Washington, 2001	1,505,000	241,564	2021
University of Washington, 2001B	5,835,000	958,253	2022
University of Washington, 2001C	4,790,000	1,191,755	2013
UW, Sandpoint Phase 2B	3,445,000	558,435	2022
UW, Sand Point Bldg 29	4,690,000	741,955	2016
UW, Sand Point Bldg 5 Phase IIC 2002E	2,620,000	394,759	2023
UW, Sand Point Bldg 5 and 29	4,355,000	267,907	2023
Whatcom Community College Child Care Center	645,000	164,230	2013
State Convention and Trade Center Expansion	177,690,000	27,218,178	2017
Liquor Control Board Distribution Center, 1996	11,555,000	5,387,630	2010
Port Angeles Office Building	430,000	120,290	2012
Washington State University, 1996	6,850,000	1,611,937	2017
Total Certificates of Participation/Financing Contracts	<u>\$ 532,733,319</u>	<u>\$ 131,710,649</u>	

The 1989 Legislature authorized financing contracts for personal and real property. The state currently has in place a program that provides for the financing of equipment and real estate projects by competitive sale of certificates of participation in master financing contracts. The state's obligations are subject to appropriation.

State Unemployment Compensation Fund

Currently, unemployed workers are entitled to up to 30 weeks of regular unemployment insurance benefits, with a maximum state liability of \$15,300 per unemployed worker. The maximum and minimum weekly benefit amounts payable are defined as percentages of the state's average weekly wage in covered employment. The maximum is now \$510; the minimum is \$109.

Legislative changes in 1984 improved the revenue-generating capacity of the unemployment insurance financing provisions. Collections under prior law could only meet the average annual benefit costs of the state's benefit provisions, and the reserve fund level (fund balance as a percent of total wages) could increase only during periods of low unemployment.

The experience rating system enacted in 1984 provided for six tax schedules with average yields ranging from 2.3 percent to 4.0 percent of taxable wages, depending on the reserve fund level. Each schedule has a maximum tax rate of 5.4 percent to conform to federal requirements. The highest tax schedule is in effect when the reserve fund level is below one percent of total wages, which was the case in 1985, 1986 and 1987. Growth in the trust fund triggered tax schedules with lower yields. The lowest tax schedule was in effect from 1990 through 1993. The reserve fund level continued to increase until June 30, 1993, after which it decreased slightly from 4.4 percent to 4.2 percent.

The 1993 Legislature concluded that the trust fund level was higher than necessary. In 1993, the Legislature enacted the new, lower tax schedule AA, and the 1995 Legislature enacted lower trust fund controls.

Changes in benefit and financing provisions were enacted by the legislature in 2003. The new law will place limits on the maximum weekly benefit amount and will reduce the computed benefit amounts for some claimants. The new financing provisions will not take effect until 2005. The department is in the process of analyzing the impact of changes in the financing provisions.

UNEMPLOYMENT COMPENSATION FUND (Dollars in Millions)

	Beginning	Receipts	Disbursements	June 30 Balance*	
	Balance			Dollars	Percent**
FY 1992	\$ 1,635	\$ 676	\$ 601	\$ 1,710	4.4%
FY 1993	1,710	684	646	1,748	4.2
FY 1994	1,748	688	845	1,591	3.7
FY 1995	1,591	674	813	1,452	3.2
FY 1996	1,452	682	815	1,319	2.7
FY 1997	1,319	765	728	1,356	2.6
FY 1998	1,356	852	691	1,517	2.6
FY 1999	1,517	921	816	1,622	2.4
FY 2000	1,622	1,109	799	1,932	2.6
FY 2001	1,932	1,029	1,051	1,910	2.4
FY 2002	1,910	1,102	1,572	1,440	1.8

* As of September 30 beginning FY 2000.

** As a percent of total wages for the preceding calendar year.

State Retirement Systems

The table below presents details regarding liabilities and assumptions of the Washington State Retirement System Funds. These retirement plans are defined benefit plans, providing monthly cash payments in accordance with a specific schedule but providing neither pre-retirement nor post-retirement medical benefits. The benefit amount may be determined by a combination of service and/or salary. The state also participates in the Judicial Retirement System and the Volunteer Fire-Fighter System, which are minor in relation to those illustrated.

The Office of the State Actuary is overseen by a special committee of the Legislature and performs all actuarial services for the Department of Retirement Systems, including all studies required by law. The tables included hereunder have been reviewed by the State Actuary and will be subject to revision at subsequent dates.

The pertinent items disclosed below are as follows:

- (i) *Contribution Rates.* These are rates of contribution developed based upon the 2001 valuations, expressed as a percentage of the active members' compensation.
- (ii) *Unfunded Actuarial Present Value of Fully Projected Benefits.* This is the unfunded actuarial present value of the state's total commitment to pensions, including the unfunded actuarial present value of benefits accrued to date for active, inactive and retired members, and the actuarial present value of projected future accruals for active members. (Contribution rates are derived from this data.)
- (iii) *Unfunded Actuarial Present Value of Credited Projected Benefits.* This is the amount by which liabilities exceed assets. Liabilities are calculated by the Credited Projected Benefits Method. Benefits are projected to retirement, including future salary increases but only service earned to date.
- (iv) *Funding Ratio.* The Funding Ratio is assets divided by liabilities. Liabilities are calculated by the Credited Projected Benefits Method.
- (v) *Unfunded Actuarial Accrued Liability-Entry Age Cost Method.* This is a portion of the unfunded actuarial present value of fully projected benefits. The only significance of this item is in developing the contribution rates for the systems. Contributions toward the Unfunded Actuarial Accrued Liability have been developed as a level percentage of expected future payrolls. The current statute, chapter 41.45 RCW, requires the existing Unfunded Actuarial Accrued Liability, as well as future gains or losses, and benefit increases to be fully funded by the dates shown in the following table.

The Public Employees' Retirement System ("PERS"), the Teachers' Retirement System ("TRS"), the School Employees' Retirement System ("SERS"), and the Law Enforcement and Firefighters' Retirement System ("LEOFF") each include more than one plan. In the table below, contribution rates are shown for members entering before October 1, 1977 (Plan 1), and after October 1, 1977 (Plan 2). Plan 3 members do not make contributions to the Defined Benefit portion of the plan. SERS Plan 2/3 is composed of school employees hired on or after October 1, 1977, who were previously included in PERS Plan 2. School employees hired before October 1, 1977, remain in PERS Plan 1. A portion of the employer contribution for Plan 2/3 employees of SERS, PERS and TRS is contributed to the respective Plan 1.

At least once every six years, the State Actuary is required to perform studies in which the demographic assumptions used in each system are evaluated. These studies were performed for the 1995-2000 period. As a result of these studies, significant changes were made in these assumptions and in the asset valuation method. The results shown below reflect the new assumptions.

The major economic assumptions used, developed and adopted by the Pension Funding Council, are as follows:

- (i) ultimate rate of assumed investment return: 8.0 percent per annum;
- (ii) general salary increases: 4.5 percent per annum;
- (iii) rate of Consumer Price Index increase: 3.5 percent (where applicable).

CONTRIBUTION RATES AND UNFUNDED LIABILITIES—RETIREMENT SYSTEMS (Dollars in Millions)

	Public			School		Law Enforcement		System Totals
	Employees ⁽³⁾			Employees ⁽³⁾		Officers and Firefighters		
	Teachers						State Patrol	
September 30, 2001								
Most Recent Valuation Date	(1)	(2)	(1)	(2)	(1)	(2)		
Contribution Rates								
State	2.05%	2.05%	2.22%	2.38%	NA	1.74%	0.00%	0.00%
Employee	6.00%	1.41%	6.00%	1.29%	NA	1.10%	0.00%	2.00%
Employer (Other than State)	2.05%	2.05%	2.22%	2.38%	NA	1.74%	0.00%	0.00%
Unfunded Actuarial Present Value of Fully Projected Benefits	\$ 1,405	\$ 1,185	\$ 73	\$	(48)	\$	(57)	\$ 2,588
Unfunded Actuarial Present Value of Credited Projected Benefits	\$ (2,423)	\$ (1,772)	\$ (384)	\$	(2,116)	\$	(229)	\$ (6,925)
Funding Ratio (Assets/Actuarial Present Value of Credited Projected Benefits)	126%	116%	197%		136%		147%	126%
Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	\$ 456	\$ 400	NA	\$	(1,216)	\$	NA	\$ (360)
Contribution Rate ⁽⁴⁾ to Fund Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	0.64%	0.72%	0.64%		NA		NA	
Remaining Funding Period for Unfunded Actuarial Accrued Liability (Entry Age Cost Method)	June 30, 2024	June 30, 2024	June 30, 2024		NA		NA	

(1) Contribution rate for members entering system before October 1, 1977 (Plan 1).

(2) Contribution rate for members entering system after October 1, 1977 (applies to Plan 2 members, not Plan 3 members).

(3) The Public Employees Retirement System and School Employees Retirement System cover employees of the state and its political subdivisions as provided by statute. The figures shown above for Unfunded Actuarial Present Value of Fully Projected Benefits, Unfunded Actuarial Present Value of Credited Projected Benefits, and Unfunded Actuarial Accrued Liability represent the state's portion only, approximately 53 percent for PERS and SERS. The contribution rate in respect of the Unfunded Actuarial Accrued Liability is paid by all employers, and all these contributions go into the Public Employees Retirement System Plan 1, which covers both public and school employees.

(4) Contribution rates are effective July 1, 2003 (September 1, 2003, for the Teachers Retirement System and the School Employees Retirement System).

Source: *Office of State Actuary*

STATE CONTRIBUTIONS TO RETIREMENT SYSTEMS
(Dollars in Thousands)

Fiscal Year Ending June 30	Public Employees ⁽¹⁾	Teachers ⁽²⁾	Law Enforcement			State Patrol ⁽⁴⁾	Judicial ⁽¹⁾⁽²⁾
			School Employees ⁽²⁾	Officers and Firefighters ⁽²⁾	Volunteer Firefighters ⁽²⁾⁽³⁾		
1998	212,600	317,200	(4)	70,500	2,000	5,900	8,800
1999	222,300	322,700	(4)	71,000	2,500	5,900	8,800
2000	146,700	258,300	(4)	17,100	2,700	0	7,300
2001	152,200	210,900	10,600	20,900	3,300	0	7,300
2002	61,600	105,800	6,000	15,600	3,300	0	6,300

- (1) State Agency Appropriations. Contributions commingled in each agency's operations budget.
- (2) General Fund-State transfers.
- (3) Nonappropriated: volunteer firefighters receive 40 percent of state tax on fire insurance premiums.
- (4) Prior to the 2000 valuation, school employees were members of PERS 2.

Source: *Office of State Actuary*

ECONOMIC INFORMATION

This section provides certain information concerning the economic condition of the state. The demographic information and statistical data which are provided do not necessarily present all factors which may have a bearing on the state's fiscal and economic affairs.

Overview

Population. The 2000 U.S. census count of the state's population was 5,894,121, or 21.1 percent more than the 4,866,700 counted in 1990.

The Seattle-Bellevue-Everett Primary Metropolitan Statistical Area (the "Seattle PMSA") is the biggest single component of the state's economy, with a population of 2,414,616 in 2000, up 18.8 percent since 1990. King County and the adjacent counties to the north, Snohomish and Island Counties, comprise the Seattle PMSA, which is the fourth largest metropolitan center on the Pacific Coast. The city of Seattle, located in northwestern Washington, is the largest city in the Pacific Northwest and serves as the King County seat. The population trends of King County and the Seattle PMSA show continued growth at a higher rate than Seattle's, reflecting the stable economy of the area and the greater availability of residential construction sites outside Seattle.

In the eastern half of the state, population in the Spokane area grew to 417,939 in 2000, an increase of 15.7 percent over 1990, and the Yakima area's population increased to 222,581, growing by 17.9 percent since 1990.

Infrastructure. The state is the home of two full-facility sea ports, located in Seattle and Tacoma, and the Seattle-Tacoma International Airport ("Sea-Tac"). The state also is served by the federal interstate highway system and Union Pacific and Burlington Northern-Santa Fe railroads, as well as Amtrak passenger lines.

Human Resources. The concentration of technical, engineering, managerial, scientific, and other professional skills within the state's work force is due in part to the state's state-supported higher education system, which consists of two major universities, four regional universities and a system of community colleges. In addition, the state has 18 private colleges.

Economic Base. The economic base of the state includes manufacturing and service industries as well as agricultural and timber production. Industry sectors exhibiting growth include transportation, communication and utilities employment; finance, insurance and real estate; and services. Boeing, the state's largest private employer, is preeminent in aircraft manufacture and exerts a significant impact on overall state production, employment and labor earnings. The state ranks fourth among 12 leading states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms, including Microsoft Corporation. The state's leading export industries are aerospace, forest products, agriculture, and food processing.

Population Characteristics

COMPONENTS OF POPULATION CHANGE STATE OF WASHINGTON 1993-2003 (Population Numbers in Thousands)

April 1	Population	Population Change		Components of Change From Previous Period						
		Number	%	Births		Deaths		Natural Increase	Net Migration	
				Number	% ⁽¹⁾	Number	% ⁽¹⁾		Number	% ⁽¹⁾
1993	5,265.7	124.5	2.4	79.1	15.2	39.4	7.6	39.7	84.8	16.3
1994	5,364.3	98.6	1.9	78.2	14.7	39.5	7.4	38.7	60.0	11.3
1995	5,470.1	105.8	2.0	77.5	14.3	40.0	7.4	37.5	68.3	12.6
1996	5,567.8	97.7	1.8	77.0	13.9	41.2	7.5	35.9	61.8	11.2
1997	5,663.8	96.0	1.7	78.0	13.9	42.6	7.6	35.4	60.6	10.8
1998	5,750.0	86.3	1.5	78.8	13.8	41.6	7.3	37.3	49.0	8.6
1999	5,830.8	80.8	1.4	79.8	13.8	43.1	7.5	36.6	44.2	7.6
2000	5,894.1	63.3	1.1	79.9	13.6	43.7	7.5	36.1	27.2	4.6
2001	5,974.9	80.8	1.4	80.7	13.6	43.9	7.4	36.8	44.0	7.4
2002 ⁽²⁾	6,041.7	66.8	1.1	79.2	13.2	44.8	7.5	34.4	32.4	5.4
2003 ⁽²⁾	6,098.3	56.6	0.9	82.0	13.5	46.2	7.6	35.8	20.8	3.4

(1) Rates are per 1,000 midpoint population and are computed on unrounded numbers.

(2) Estimates.

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population

DISTRIBUTION OF POPULATION BY AGE (Population Numbers in Thousands)

Age	Washington State				United States			
	1990 Number	% of Total	2000 Number	% of Total	1990 Number	% of Total	2000 Number	% of Total
Under 5	374	7.7	394	6.7	18,354	7.4	19,176	6.8
5 to 19	1,031	21.2	1,289	21.9	52,967	21.3	61,298	21.8
20 to 24	353	7.2	390	6.6	19,020	7.6	18,964	6.7
25 to 34	856	17.6	841	14.3	43,176	17.4	39,892	14.2
35 to 44	801	16.5	975	16.5	37,579	15.1	45,149	16.0
45 to 54	500	10.3	846	14.4	25,223	10.1	37,678	13.4
55 to 64	381	7.8	497	8.4	21,148	8.5	24,274	8.6
65 and over	571	11.7	662	11.2	31,242	12.6	34,992	12.4

Source: Office of Financial Management, available at www.ofm.wa.gov/databook/contents.htm#population, and the U.S. Bureau of Census, available at www.census.gov/statab/www/

Income Characteristics

The following table provides a comparison of personal income for the state and the nation for the last ten years.

PERSONAL INCOME COMPARISON WASHINGTON AND U.S. 1998-2005 (Dollars in Billions)

Year	Current Dollars ⁽¹⁾				2000 Chained Dollars ⁽²⁾			
	Washington		United States		Washington		United States	
	Amount	Percent ⁽⁴⁾	Amount	Percent ⁽⁴⁾	Amount	Percent ⁽⁴⁾	Amount	Percent ⁽⁴⁾
1998	\$163.2	8.6%	\$7,423.0	7.3%	\$170.0	7.7%	\$7,734.4	6.4%
1999	174.1	6.7	7,802.4	5.1	178.5	5.0	7,997.1	3.4
2000	186.8	7.3	8,429.7	8.0	186.9	4.7	8,430.1	5.4
2001	191.6	2.6	8,713.1	3.4	187.8	0.5	8,539.2	1.3
2002	198.2	3.4	8,910.3	2.3	191.7	2.0	8,615.1	0.9
2003	206.2	4.0	9,190.0	3.1	195.8	2.2	8,730.0	1.3
2004 ⁽³⁾	215.4	4.5	9,627.1	4.8	202.4	3.4	9,045.0	3.6
2005 ⁽³⁾	227.1	5.4	10,169.6	5.6	210.3	3.9	9,421.1	4.2

- (1) Current dollars: the actual price of something when it was bought, not adjusted for cost of living index (commonly called inflation).
- (2) Chained dollars: created from the geometric mean of two growth calculations; allows for a comparison of data in a time series to accurately indicate growth or decline in indicators.
- (3) Revenue forecast as of February 2004.
- (4) Percent change; annual rate.

Source: Washington State Office of the Forecast Council and U.S. Department of Commerce, Bureau of Economic Analysis

Employment Characteristics

AVERAGE ANNUAL EMPLOYMENT⁽¹⁾ RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT IN WASHINGTON STATE (Employment Numbers in Thousands)

	2000	2001	2002	2003	2004
Resident Civilian Labor Force	3,050.7	3,015.2	3,096.9	3,116.5	3,164.3
Unemployment	159.1	192.9	225.9	224.7	219.2
Unemployment Rate ⁽²⁾	5.2%	6.4%	7.3%	7.2%	6.9%
Total Employment	2,891.5	2,822.3	2,871.1	2,891.7	2,945.1
Nonagricultural Wage and Salary Workers Employed in Washington					
Nonfarm Employment	2,711.5	2,697.4	2,653.2	2,658.3	2,697.1
Durable Manufacturing Employment	236.4	225.0	199.5	184.5	181.0
Aerospace Employment	86.1	87.2	75.8	65.5	61.0
Computer Employment	34.3	32.4	26.2	23.5	23.5
Nondurable Manufacturing Employment	95.4	91.1	86.1	82.9	79.1
Natural Employment	10.0	9.8	9.3	8.8	8.7
Construction Employment	160.6	158.8	154.4	156.3	160.2
Trade, Transportation, Communication, and Utilities Employment	531.9	523.8	509.5	511.1	516.1
Information Employment	97.6	99.0	93.5	92.4	97.2
Software Employment	32.2	35.9	35.9	36.8	40.6
Financial Employment	142.3	145.2	145.6	151.9	155.1
Professional Employment	303.8	296.9	289.5	290.9	306.4
Education Employment	291.9	298.3	306.9	312.1	319.3
Leisure Employment	251.8	247.1	245.0	246.6	245.9
Other Service Employment	106.2	96.9	97.9	99.7	100.1
Government Employment	483.4	505.4	516.2	521.3	528.0

(1) Averages of monthly data.

(2) Unemployment rate as of February 2004 estimated at 6.9%.

Source: Washington State Office of the Forecast Council

COMPARISON OF EMPLOYMENT TRENDS BY INDUSTRY SECTOR (%) ⁽¹⁾

	State		United States	
	1994	2004	1994	2004
Manufacturing				
Nondurable Manufacturing				
Food and Kindred	1.7	1.2	1.4	1.1
Pulp and Paper	0.7	0.5	0.6	0.4
Other	1.8	1.3	4.1	2.6
Subtotal	4.1	2.9	6.0	4.1
Durable Manufacturing				
Lumber and Wood	1.0	0.7	0.5	0.4
Primary Metals	0.5	0.2	0.6	0.4
Fabricated Metals	0.7	0.6	1.4	1.1
Machinery	0.5	0.5	1.2	0.9
Computers	1.1	0.9	1.4	1.1
Transportation Equipment	4.4	2.7	1.7	1.3
Other	1.2	1.2	2.1	1.7
Subtotal	9.4	6.7	8.9	6.9
Total Manufacturing	13.5	9.6	14.9	11.0
Nonmanufacturing				
Natural Products	0.4	0.3	0.6	0.4
Construction	5.3	5.9	4.5	5.3
Trade, Transportation, Communication, Utilities	19.7	19.1	20.2	19.3
Information Services	2.6	3.6	2.4	2.5
Financial Services	5.4	5.8	6.0	6.1
Professional	10.0	11.4	10.6	12.8
Education	10.7	11.8	11.2	12.8
Leisure	9.3	9.1	8.8	9.3
Other Services	4.1	3.7	3.9	4.0
Government	19.0	19.6	16.9	16.4
Total Nonmanufacturing	86.5	90.4	85.1	89.0
Total ⁽²⁾	100.0	100.0	100.0	100.0

(1) Figures are calculated as a percentage of total wage and salary employment.

(2) Numbers may not add due to rounding.

Source: Washington State Office of the Forecast Council

**ANNUAL AVERAGE CIVILIAN LABOR FORCE, UNEMPLOYMENT AND
UNEMPLOYMENT RATES FOR WASHINGTON AND THE UNITED STATES**

1997-2004

(Employment Numbers in Thousands)

Year	Civilian Labor Force		Number of Unemployed		Unemployment Rate		Wash. Unemployment as Percent of U.S.
	Wash.	U.S.	Wash.	U.S.	Wash.(%)	U.S.(%)	Rate(%)
1997	2,983	137,563	142	6,797	4.8	4.9	96.4
1998	3,038	139,108	145	6,260	4.8	4.5	105.8
1999	3,075	141,012	145	5,946	4.7	4.2	112.1
2000	3,051	142,610	159	5,669	5.2	4.0	131.3
2001	3,015	143,925	193	6,850	6.4	4.8	134.5
2002	3,097	145,125	226	8,381	7.3	5.8	126.3
2003*	3,116	146,516	225	8,779	7.2	6.0	120.4
2004*	3,164	148,364	219	8,387	6.9	5.7	122.5

* The 2003 and 2004 figures are based on the February 2004 forecast.

Source: Washington State Office of the Forecast Council and the U.S. Dept. of Labor, Bureau of Labor Statistics

Companies. The following two tables provide information on the top companies headquartered in the state, ranked by revenues. The Boeing Company, headquartered in Chicago, Illinois, is the largest employer in the state, with revenues in 2002 of \$54.1 million.

**WASHINGTON'S TWENTY-FIVE LARGEST PUBLIC COMPANIES, RANKED BY 2002 REVENUES
(in Millions)**

		Revenues			Revenues
1.	Costco Wholesale Corp.	\$38,792.5	14.	Alaska Air Group Inc.	\$2,224.1
2.	Microsoft Corp.	32,187.0	15.	Potlatch Corp.	1,286.2
3.	Washington Mutual	19,037.0	16.	Western Wireless Corp.	1,186.6
4.	Weyerhaeuser	18,521.0	17.	Plum Creek Timber Co. Inc.	1,137.0
5.	AT&T Wireless Services	15,631.0	18.	Avista Corp.	980.4
6.	Paccar Inc.	7,218.6	19.	Labor Ready Inc.	862.7
7.	Safeco Corp.	7,065.1	20.	Longview Fibre Co.	769.3
8.	Nordstrom Inc.	5,975.1	21.	Nextel Partners Inc.	670.7
9.	Amazon.com Inc.	3,932.9	22.	Expedia Inc.	590.6
10.	Airborne Inc.	3,343.7	23.	The Nautilus Group Inc.	584.7
11.	Starbucks Coffee Co.	3,288.9	24.	Washington Federal Savings	515.5
12.	Puget Sound Energy	2,392.3	25.	Consolidated Freightways Corp.	482.4
13.	Expeditors International Inc.	2,296.9			

Source: Puget Sound Business Journal 2003 Book of Lists

WASHINGTON COMPANIES IN FORTUNE 500 IN 2002
(Dollars in Millions)

	<u>Company</u>	<u>Rank</u>	<u>Revenues</u>	<u>Headquarters/Location</u>
1.	CostcoWholesale	33	38,762	Issaquah
2.	Microsoft Corp.	47	28,365	Redmond
3.	Washington Mutual Inc.	94	19,037	Seattle
4.	Weyerhaeuser Co.	96	18,521	Federal Way
5.	AT&T Wireless	119	15,632	Redmond
6.	Paccar	257	7,218.6	Bellevue
7.	Safeco Corp.	260	7,065	Seattle
8.	Nordstrom Inc.	293	5,975	Seattle
9.	Amazon.com	407	3,933	Seattle
10.	Airborne	458	3,344	Seattle
11.	Starbucks	465	3,289	Seattle
12.	Puget Energy	589	2,392	Bellevue
13.	Expeditors Internat'l	612	2,297	Seattle
14.	Alaska Air Group	628	2,224	Seattle
15.	Potlatch	839	1,147	Spokane
16.	Western Wireless	968	1,187	Bellevue
17.	Plum Creek Timber	995	1,137	Seattle

Source: *Fortune Magazine Fortune 500, April 2003*

Annual Retail Sales Activity

The state is home to a number of specialty retail companies that have reached national stature, including Nordstrom, Eddie Bauer, Costco, and Recreational Equipment Inc. The following table provides a history of retail sales activity in the state.

FISCAL YEAR RETAIL SALES ACTIVITY 1996-2003
(Dollars in Billions)

<u>Fiscal Year</u>	<u>Washington</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
1996	62.8	1.5	2,577.6	5.3%
1997	66.7	6.2	2,715.3	5.3
1998	72.1	8.1	2,845.7	4.8
1999	77.2	7.1	3,026.3	6.3
2000	83.4	8.0	3,291.5	8.8
2001	85.6	2.7	3,418.3	3.9
2002	84.4	(1.4)	3,520.8	3.0
2003	86.2	2.1	3,660.5	4.0

Source: *Washington State Office of the Forecast Council and the U.S. Department of Commerce*

Trade

One in six jobs in the state is related to international trade. The state, particularly the Puget Sound corridor, is a trade center for the Northwest and the state of Alaska. During the past 20 years, the state consistently has ranked number one or number two in the nation in international exports per capita.

Ports. The Ports of Seattle and Tacoma serve as one of the three major gateways for marine commerce into the United States from the Pacific Rim, and each rank among the top 20 ports in the world based upon volume of containerized cargo shipped. The ten largest shipping lines in the world call at these

ports, and on a combined basis, these ports rank as the second-largest load center for the shipment of containerized cargo in the United States.

Approximately 70 percent of the cargo passing through the Ports of Seattle and Tacoma has an ultimate destination outside of the Pacific Northwest. Therefore, trade levels depend largely on national and world economic conditions, rather than local economic conditions.

Airport. The city of Seattle is the commercial center for the state and is near a major international airport, Sea-Tac, which has scheduled passenger service by 15 major/national, three regional/commuter and ten foreign flag carriers. In addition, 16 all-cargo carriers have scheduled cargo service at Sea-Tac. Sea-Tac is the 23rd busiest airport in the nation for aircraft operations and the 20th busiest cargo airport.

Manufacturing

The state's manufacturing base includes aircraft manufacture, with the aerospace industry currently representing approximately eight percent of all taxable business income generated in the state. Boeing remains the largest employer in the Puget Sound area, although total employment within the company dropped from 238,600 to 160,600 and employment within the State dropped from 103,420 to 57,000 between February 1998 and June 2003. In September 2001, the company relocated its corporate headquarters to Chicago, Illinois, a move that affected approximately one-half of the 1,000 people who worked in the Seattle location.

The following table shows the record of sales and earnings reported by Boeing for the last five years:

BOEING SALES AND EARNINGS

Year	Sales (Billions) *	Earnings (Millions)
1998	\$ 56.2	\$ 1,120
1999	58.0	2,309
2000	51.3	2,128
2001	58.2	2,827
2002	54.1	2,319

* Includes firm orders; excludes options, orders without signed contracts, and orders from firms that have filed for bankruptcy.

Source: The Boeing Company

While Boeing has dominated manufacturing employment, other manufacturers also have experienced growth, thus reducing Boeing's percentage of total manufacturing jobs in the state.

Technology-Related Industries

The most significant growth in manufacturing jobs, exclusive of aerospace, has occurred in high technology-based companies. The state ranks fourth among all states in the percentage of its work force employed in technology-related industries and ranks third among the largest software development centers. The state is the home of approximately 1,000 advanced technology firms; nearly 50 percent of these firms are computer-related businesses. Microsoft, which is headquartered in Redmond, Washington, is the largest microcomputer software company in the world. Microsoft's fiscal year 2002 revenues were \$28.4 billion, compared to \$25.3 billion in fiscal year 2001.

Services/Tourism

As the business, legal and financial center of the state, Seattle ranks ninth in the country in the number of downtown hotel rooms (7,600 rooms in 50 hotels and motels). The Washington State Convention and Trade

Center opened in June 1988, with the capacity for events involving as many as 11,000 people. An expansion of the Convention and Trade Center that doubled the exhibition space and added a private office tower, hotel and museum was completed in 2001.

Timber

Natural forests cover more than 40 percent of the state's land area. Forest products rank second behind aerospace in value of total production. The Weyerhaeuser Company is the state's largest forest products employer.

A continued decline in overall production during the next few years is expected due to federally imposed limitations on the harvest of old-growth timber and the inability to maintain the recent record levels of production increases. The decline is not expected to have a significant effect on the state's overall economic performance.

Agriculture and Food Processing

Agriculture, combined with food processing, is an important state industry. The state's major products—wheat, apples, milk, and cattle—comprise more than half of total production. The values and uses of farmland in the state are expected to change in the future, with the listing of local salmon runs as endangered by the U.S. Environmental Protection Agency.

Construction

The following table provides information on housing units for the state and the United States.

**HOUSING UNITS AUTHORIZED IN WASHINGTON AND THE UNITED STATES
1995-2004**

<u>Calendar Year</u>	<u>Washington</u>	<u>United States ⁽¹⁾</u>
1995	38,160	1,361,000
1996	39,597	1,468,667
1997	41,089	1,474,583
1998	45,727	1,621,167
1999	42,752	1,647,250
2000	39,021	1,573,333
2001	38,345	1,601,167
2002	40,200	1,710,917
2003 ⁽²⁾	43,476	1,771,329
2004 ⁽²⁾	40,733	1,675,855

(1) Actual housing starts prior to current year.

(2) 2003 and 2004 figures are based on the November 2003 forecast.

Source: Washington State Office of the Forecast Council and the Department of Commerce

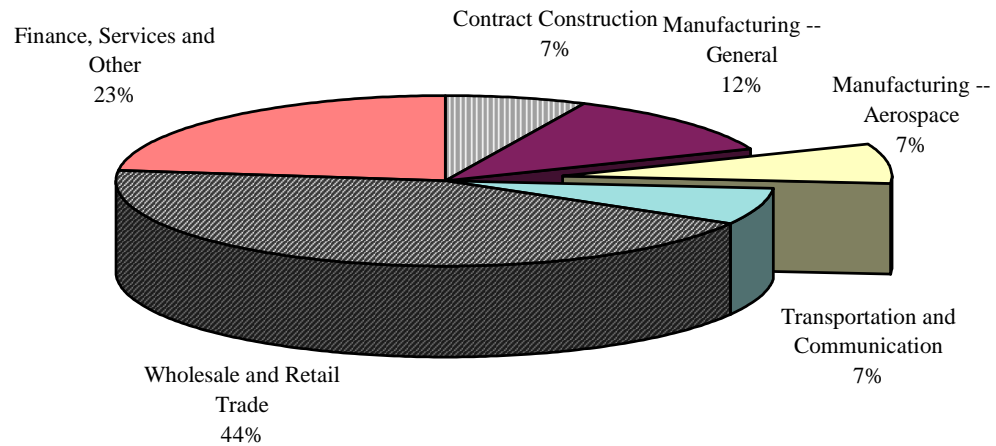
Federal, State and Local Government

On a combined basis, employment in the government sector represents approximately 18.7 percent of all wage and salary employment in the state. Seattle is the regional headquarters of a number of federal government agencies, and the state receives an above-average share of defense expenditures.

Summary

The following diagram provides an overall description of business income by industry sector for 2002.

Gross Business Income by Industry Sector 2002



Source: Department of Revenue, "Quarterly Business Review Calendar Year 2002", Table 1.

APPENDIX B
PROPOSED FORMS OF LEGAL OPINION

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[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

We have served as bond counsel in connection with the issuance by the State of Washington (the "State") of the bonds described below (the "Bonds"):

\$119,015,000
STATE OF WASHINGTON
VARIOUS PURPOSE GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2004C
DATED MARCH 9, 2004*

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolutions No. 875 and No. 995 of the State Finance Committee of the State adopted on April 1, 1998, and February 26, 2004, respectively (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding various purpose general obligation bonds of the State to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

1111 THIRD
AVENUE
Suite 3400
SEATTLE
Washington
98101-3299

Telephone
(206) 447-4400
Facsimile
(206) 447-9700
Website
WWW.FOSTER.COM

ANCHORAGE
Alaska

PORTLAND
Oregon

SEATTLE
Washington

SPOKANE
Washington

* Expected closing date

State of Washington
[Date]

Under the Internal Revenue Code of 1986, as amended (the “Code”), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State’s compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and statutes of the State, including the Refunding Bond Act.
2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.
3. The State has lawfully and unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Bonds.
4. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

State of Washington
[Date]

The State has not designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b)(3) of the Code.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully yours,

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[FORM OF APPROVING LEGAL OPINION]

State of Washington
c/o State Finance Committee
Olympia, Washington

We have served as bond counsel in connection with the issuance by the State of Washington (the "State") of the bonds described below (the "Bonds"):

\$156,475,000
STATE OF WASHINGTON
MOTOR VEHICLE FUEL TAX GENERAL OBLIGATION
REFUNDING BONDS, SERIES R-2004D
DATED MARCH 9, 2004*

1111 THIRD
AVENUE
Suite 3400
SEATTLE
Washington
98101-3299

Telephone
(206) 447-4400
Facsimile
(206) 447-9700
Website
WWW.FOSTER.COM

The Bonds are issued pursuant to Chapters 39.42 and 39.53 RCW (collectively, the "Refunding Bond Act"), Resolutions No. 875 and No. 996 of the State Finance Committee of the State adopted on April 1, 1998, and February 26, 2004, respectively (collectively, the "Bond Resolution"), and other proceedings duly had and taken in conformity therewith. The Bonds are issued for the purpose of providing funds with which to pay the cost of refunding certain outstanding motor vehicle fuel tax general obligation bonds of the State issued under various series to provide a debt service savings to the State and to pay the administrative costs of such refunding and the costs of issuance and sale of the Bonds. Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Resolution.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the State to provide ongoing disclosure pursuant to SEC Rule 15c2-12.

ANCHORAGE
Alaska

PORTLAND
Oregon

SEATTLE
Washington

SPOKANE
Washington

As to questions of fact material to our opinion, we have relied upon representations of the State contained in the Bond Resolution and in the certified

* Expected closing date

State of Washington
[Date]

proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Under the Internal Revenue Code of 1986, as amended (the “Code”), the State is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The State has covenanted in the Bond Resolution to comply with those requirements, but if the State fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the State’s compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The Bonds are lawfully authorized and issued pursuant to and in full compliance with the Constitution and statutes of the State, including the Refunding Bond Act.
2. The Bonds have been legally issued and constitute valid general obligations of the State, except to the extent that the enforcement of the rights and remedies of the holders and owners of the Bonds may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.
3. The State has lawfully and unconditionally pledged its full faith, credit and taxing power to pay principal of and interest on the Bonds.
4. The Bonds are first payable from state excise taxes on motor vehicle and special fuels and are secured by liens and charges on such taxes as set forth in the Bonds. The State has covenanted that it will continue to levy such taxes in amounts sufficient to pay the principal of and interest on the Bonds.
5. Assuming compliance by the State after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted

State of Washington
[Date]

current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal, state or local tax consequences of receipt of interest on the Bonds.

The State has not designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b)(3) of the Code.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully yours,

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APPENDIX C
BONDS OUTSTANDING

The following table identifies the amounts of authorized, issued and outstanding General Obligation Bonds of the state:

**DEBT AUTHORIZATION SECURED BY
GENERAL STATE REVENUE AND/OR COMPONENTS
March 9, 2004**

Subject to Statutory Debt Limitation

Chapter and Laws	Bonds		Bonds	
	Authorized	Issued ⁽¹⁾	Outstanding ⁽¹⁾	Unissued
Ch. 138 -- Laws of 1965 (R-92C).....	\$ 195,985,500	\$ 195,985,500	\$ 11,785,000	\$ -
Ch. 138 -- Laws of 1965 (R-93A).....	86,305,000	86,305,000	53,460,000	-
Ch. 138 -- Laws of 1965 (R-93B).....	172,305,000	172,305,000	66,950,000	-
Ch. 138 -- Laws of 1965 (R-95A).....	18,175,000	18,175,000	6,450,000	-
Ch. 138 -- Laws of 1965 (R-95B).....	107,040,000	107,040,000	9,820,000	-
Ch. 138 -- Laws of 1965 (R-96B).....	121,520,000	121,520,000	70,320,000	-
Ch. 138 -- Laws of 1965 (R-96C).....	55,960,000	55,960,000	44,780,000	-
Ch. 138 -- Laws of 1965 (R-98A).....	86,820,000	86,820,000	84,290,000	-
Ch. 138 -- Laws of 1965 (R-99A).....	67,980,000	67,980,000	54,185,000	-
Ch. 138 -- Laws of 1965 (R-2000A).....	73,795,000	73,795,000	37,955,000	-
Ch. 138 -- Laws of 1965 (R-2001A).....	351,595,000	351,595,000	263,895,000	-
Ch. 138 -- Laws of 1965 (R-2001T).....	12,050,000	12,050,000	5,325,000	-
Ch. 138 -- Laws of 1965 (R-2002A).....	49,560,000	49,560,000	37,410,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	563,780,000	563,780,000	539,330,000	-
Ch. 138 -- Laws of 1965 (R-2003C).....	57,775,000	57,775,000	56,375,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	118,590,000	118,590,000	116,735,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	116,625,000	116,625,000	116,625,000	-
Ch. 125 -- Laws of 1988.....	18,887,360	18,887,360	5,278,080	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	653,105,000	620,005,569	343,985,135	33,099,431
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	471,960,000	460,380,000	259,930,000	11,580,000
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	544,402,000	535,809,716	385,222,939	8,592,284
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	856,850,000	828,346,667	689,835,801	28,503,333
Ch. 456 -- Laws of 1997, Regular Sess.....	943,330,000	919,145,000	814,865,000	24,185,000
Ch. 380 -- Laws of 1999, Regular Sess.....	1,025,770,000	987,387,000	951,667,000	38,383,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	905,575,000	857,528,000	836,053,000	48,047,000
Ch. 240 -- Laws of 2002, Regular Sess.....	89,700,000 -	88,230,000	88,230,000	1,470,000
Ch. 3 -- Laws of 2003, 1st Sp. Sess.....	1,212,000,000 -	46,985,000	46,985,000	1,165,015,000
Ch. 18 -- Laws of 2003, 1st Sp. Sess.....	772,500,000 -	80,670,000	80,670,000	691,830,000
<i>Subtotal.....</i>	<i>\$ 9,749,939,860</i>	<i>\$ 7,699,234,812</i>	<i>\$ 6,078,411,956</i>	<i>\$ 2,050,705,048</i>

(1) Includes current offering dated March 9, 2004, after defeasance of the Refunded Bonds.

Excluded From Statutory Debt Limitation

Chapter and Laws	Bonds		Bonds	
	Authorized	Issued ⁽¹⁾	Outstanding ⁽¹⁾	Unissued
Ch. 138 -- Laws of 1965 (R-92C-Ex).....	\$ 31,584,500	\$ 31,584,500	\$ 1,360,000	-
Ch. 138 -- Laws of 1965 (R-93A-Ex).....	119,750,000	119,750,000	60,745,000	-
Ch. 138 -- Laws of 1965 (R-93B-Ex).....	58,645,000	58,645,000	45,045,000	-
Ch. 138 -- Laws of 1965 (R-95A-Ex).....	6,410,000	6,410,000	2,250,000	-
Ch. 138 -- Laws of 1965 (R-95B Ex).....	20,315,000	20,315,000	460,000	-
Ch. 138 -- Laws of 1965 (R-96B Ex).....	36,930,000	36,930,000	23,305,000	-
Ch. 138 -- Laws of 1965 (R-96C Ex).....	28,240,000	28,240,000	22,400,000	-
Ch. 138 -- Laws of 1965 (R-97A Ex).....	25,026,467	25,026,467	25,026,467	-
Ch. 138 -- Laws of 1965 (R-98A Ex).....	37,985,000	37,985,000	36,885,000	-
Ch. 138 -- Laws of 1965 (R-99A Ex).....	25,140,000	25,140,000	19,755,000	-
Ch. 138 -- Laws of 1965 (R-2000A).....	6,775,000	6,775,000	3,480,000	-
Ch. 138 -- Laws of 1965 (R-2001A).....	54,045,000	54,045,000	42,520,000	-
Ch. 138 -- Laws of 1965 (R-2002A).....	12,835,000	12,835,000	9,430,000	-
Ch. 138 -- Laws of 1965 (R-2003A).....	42,095,000	42,095,000	39,860,000	-
Ch. 138 -- Laws of 1965 (R-2003C).....	19,185,000	19,185,000	18,715,000	-
Ch. 138 -- Laws of 1965 (R-2004A).....	5,550,000	5,550,000	5,460,000	-
Ch. 138 -- Laws of 1965 (R-2004C).....	2,390,000	2,390,000	2,390,000	-
Ch. 34 -- Laws of 1982 as amended.....	21,697,181	21,697,181	6,292,924	-
Ch. 14 -- Laws of 1989, 1st Ex. Sess., as amended.....	62,170,000	47,405,000	32,150,000	14,765,000
Ch. 15 -- Laws of 1990, 1st Ex. Sess.....	10,000,000	10,000,000	3,024,179	-
Ch. 31 -- Laws of 1991, 1st Sp. Sess., as amended.....	266,865,000	262,852,302	168,184,035	4,012,698
Ch. 12 -- Laws of 1993, 1st Sp. Sess.....	320,000	320,000	95,000	-
Ch. 17 -- Laws of 1995, 2nd Sp. Sess., as amended.....	10,310,000	9,420,000	8,480,000	890,000
Ch. 220 -- Laws of 1997, Regular Sess.....	300,000,000	294,944,718	277,319,718	5,055,282
Ch. 456 -- Laws of 1997, Regular Sess.....	45,670,000	43,635,000	38,415,000	2,035,000
Ch. 380 -- Laws of 1999, Regular Sess.....	178,495,000	159,830,000	154,555,000	18,665,000
Ch. 9 -- Laws of 2001, 2nd Sp. Sess.....	128,435,000	107,340,000	106,045,000	21,095,000
Ch. 147 -- Laws of 2003, Regular Sess.....	349,500,000	20,000,000	20,000,000	329,500,000
Subtotal.....	\$ 1,906,363,148	\$ 1,510,345,167	\$ 1,173,647,322	\$ 396,017,981
Total.....	\$ 11,656,303,008	\$ 9,209,579,979	\$ 7,252,059,278	\$ 2,446,723,029

(1) Includes current offering dated March 9, 2004, after defeasance of the Refunded Bonds.

BOND AUTHORIZATION AND OUTSTANDING DEBT
MOTOR VEHICLE FUEL TAX REVENUE
March 9, 2004

Chapter and Laws	Bonds		Bonds	
	Authorized	Issued ⁽¹⁾	Outstanding ⁽¹⁾	Unissued
Ch. 138 -- Laws of 1965 (R-92D).....	\$ 75,315,000	\$ 75,315,000	\$ 6,195,000	-
Ch. 138 -- Laws of 1965 (R-93C).....	104,075,000	104,075,000	35,070,000	-
Ch. 138 -- Laws of 1965 (R-95C).....	53,685,000	53,685,000	33,960,000	-
Ch. 138 -- Laws of 1965 (R-96A).....	13,475,000	13,475,000	3,480,000	-
Ch. 138 -- Laws of 1965 (R-2000B).....	18,740,000	18,740,000	9,555,000	-
Ch. 138 -- Laws of 1965 (R-2001B).....	119,640,000	119,640,000	86,100,000	-
Ch. 138 -- Laws of 1965 (R-2002B).....	25,580,000	25,580,000	19,320,000	-
Ch. 138 -- Laws of 1965 (R-2003B).....	70,325,000	70,325,000	68,810,000	-
Ch. 138 -- Laws of 1965 (R-2004B).....	57,045,000	57,045,000	56,165,000	-
Ch. 138 -- Laws of 1965 (R-2004D).....	156,475,000	156,475,000	156,475,000	-
Ch. 7 -- Laws of 1967, Ex. Sess. (Sections 13-23) as amended by Ch 11, Laws of 1993.....	13,865,000	11,865,000	8,645,000	2,000,000
Ch. 360 -- Laws of 1977, 1st Ex. Sess.....	35,085,000	35,085,000	1,425,000	-
Ch. 180 -- Laws of 1979, 1st Ex. Sess.....	28,480,000	28,480,000	3,220,000	-
Ch. 212 -- Laws of 1979, 1st Ex. Sess.....	80,000,000 ⁽²⁾	-	-	80,000,000
Ch. 315 -- Laws of 1981.....	36,860,000	36,860,000	8,920,000	-
Ch. 316 -- Laws of 1981.....	148,375,000	148,375,000	9,530,000	-
Ch. 293 -- Laws of 1990.....	15,000,000	13,400,000	9,340,000	1,600,000
Ch. 158 -- Laws of 1992.....	158,160,000	158,160,000	127,255,000	-
Ch. 6 -- Laws of 1993.....	200,000,000	-	-	200,000,000
Ch. 431 -- Laws of 1993, as amended.....	218,385,000	189,385,000	146,240,000	29,000,000
Ch. 432 -- Laws of 1993.....	85,450,000	10,255,000	6,170,000	75,195,000
Ch. 440 -- Laws of 1993.....	100,000,000	85,430,000	79,740,000	14,570,000
Ch. 15 -- Laws of 1995, 2nd Sp. Sess.....	23,665,000	17,455,000	14,965,000	6,210,000
Ch. 321 -- Laws of 1998.....	1,900,000,000	1,147,616,136	1,120,856,136	752,383,864
Ch. 147 -- Laws of 2003.....	2,600,000,000	105,000,000	105,000,000	2,495,000,000
<i>Total</i>	<u>\$ 6,337,680,000</u>	<u>\$ 2,681,721,136</u>	<u>\$ 2,116,436,136</u>	<u>\$ 3,655,958,864</u>

(1) Includes current offering dated March 9, 2004, after defeasance of the Refunded Bonds.

(2) No sale scheduled pending results of toll bridge feasibility studies.

<i>Grand Total</i>	<u>\$ 17,993,983,008</u>	<u>\$ 11,891,301,114</u>	<u>\$ 9,368,495,413</u>	<u>\$ 6,102,681,893</u>
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APPENDIX D

EXCERPTS FROM 2003 AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS

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Sunset Building
PO Box 40021
Olympia, Washington 98504-0021

**Washington State Auditor
Brian Sonntag**

(360) 902-0370
FAX (360) 753-0646
TDD Relay 1-800-833-6388
<http://www.sao.wa.gov/>

INDEPENDENT AUDITOR'S REPORT

December 19, 2003

The Honorable Gary Locke
Governor, State of Washington

Dear Governor Locke:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the state's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems and the Local Government Investment Pool, which represent 14 percent and 58 percent, respectively of the assets and revenues/additions of the aggregate discretely presented component units and remaining fund information. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Department of Retirement Systems and the Local Government Investment Pool, is based upon their reports.

We conducted our audit in accordance with governmental auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our report and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Washington as of June 30, 2003, and the results of its operations and cash flows of its proprietary funds for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

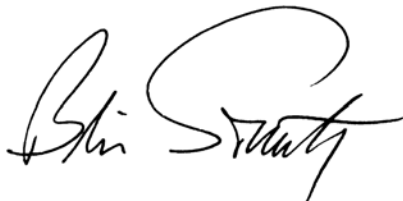
In accordance with *Government Auditing Standards* in the United States of America, we will issue our report on our consideration of the State of Washington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents, and the budgetary reports (MFS1054) referenced in Note 1.D are for purposes of additional analysis, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this report, designated as the introductory and statistical sections in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized flourish at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Basic Financial Statements

Government-wide Financial Statements

State of Washington Statement of Net Assets

June 30, 2003

(expressed in thousands)

	Primary Government			
	Governmental	Business-Type	Total	Component Units
	Activities	Activities		
ASSETS				
Cash and pooled investments	\$ 3,546,087	\$ 3,405,125	\$ 6,951,212	\$ 38,668
Taxes receivable (net of allowance)	2,473,807	4,070	2,477,877	-
Other receivables (net of allowance)	791,170	1,154,258	1,945,428	1,609
Internal balances (net)	55,022	(55,022)	-	-
Due from other governments	2,089,289	81,255	2,170,544	-
Inventories	78,585	67,781	146,366	-
Investments, noncurrent	2,982,557	10,178,812	13,161,369	23,509
Other assets	139,227	82,701	221,928	16,236
Capital assets (Note 6):				
Non-depreciable assets	14,135,056	321,717	14,456,773	34,677
Depreciable assets, net of depreciation	5,974,621	958,368	6,932,989	452,836
Total capital assets, net of depreciation	20,109,677	1,280,085	21,389,762	487,513
Total Assets	32,265,421	16,199,065	48,464,486	567,535
LIABILITIES				
Accounts payable	924,158	115,663	1,039,821	1,478
Contracts and retainage payable	96,157	29,626	125,783	2,342
Accrued liabilities	388,848	199,145	587,993	111
Obligations under securities lending	801,272	1,626,005	2,427,277	-
Due to other governments	727,469	11,876	739,345	-
Deferred revenue	403,568	45,513	449,081	657
Long-term liabilities (Note 7):				
Due within one year	719,597	1,725,776	2,445,373	-
Due in more than one year	9,349,958	16,413,906	25,763,864	37,000
Total Liabilities	13,411,027	20,167,510	33,578,537	41,588
NET ASSETS				
Invested in capital assets, net of related debt	9,032,693	543,259	9,575,952	448,171
Restricted for:				
Unemployment compensation	-	1,513,465	1,513,465	-
Other purposes	424,287	-	424,287	21,287
Capital projects	228,506	-	228,506	-
Expendable permanent fund principal	459,548	-	459,548	-
Nonexpendable permanent endowments	1,231,663	-	1,231,663	-
Unrestricted (deficit)	7,477,697	(6,025,169)	1,452,528	56,489
Total Net Assets	\$ 18,854,394	\$ (3,968,445)	\$ 14,885,949	\$ 525,947

The notes to the financial statements are an integral part of this statement.

State of Washington Statement of Activities

For the Fiscal Year Ended June 30, 2003

(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 812,328	\$ 412,914	\$ 319,613	\$ 3,499
Education--elementary and secondary (K-12)	5,959,858	7,830	590,652	84
Education--higher education	3,750,120	1,095,342	1,175,122	8,938
Human services	8,971,393	335,060	4,846,031	-
Adult corrections	657,563	7,297	8,318	900
Natural resources and recreation	731,484	321,428	138,607	28,033
Transportation	1,422,345	620,851	49,990	546,531
Intergovernmental grants	341,371	-	-	-
Interest on long-term debt	415,017	-	-	-
Total governmental activities	23,061,479	2,800,722	7,128,333	587,985
Business-type Activities:				
Workers' compensation	2,616,634	1,315,623	7,684	-
Unemployment compensation	2,328,774	1,130,352	744,669	-
Health insurance programs	911,873	932,172	6,001	-
Higher education student services	1,051,347	1,069,491	10,992	-
Other	937,676	991,551	147	60,340
Total business-type activities	7,846,304	5,439,189	769,493	60,340
Total Primary Government	\$ 30,907,783	\$ 8,239,911	\$ 7,897,826	\$ 648,325
Total Component Units	\$ 27,749	\$ 10,063	\$ 213	\$ 31,211

General revenues:

Taxes - sales and use taxes

Taxes - business and occupation taxes

Taxes - property

Taxes - other

Interest and investment earnings

Total general revenues

Excess (deficiency) of revenues over expenses before contributions

to endowments and transfers

Contributions to endowments

Transfers

Change in net assets

Net assets -- beginning, as restated

Net assets -- ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (76,302)	\$ -	\$ (76,302)	
(5,361,292)	-	(5,361,292)	
(1,470,718)	-	(1,470,718)	
(3,790,302)	-	(3,790,302)	
(641,048)	-	(641,048)	
(243,416)	-	(243,416)	
(204,973)	-	(204,973)	
(341,371)	-	(341,371)	
(415,017)	-	(415,017)	
(12,544,439)	-	(12,544,439)	
-	(1,293,327)	(1,293,327)	
-	(453,753)	(453,753)	
-	26,300	26,300	
-	29,136	29,136	
-	114,362	114,362	
-	(1,577,282)	(1,577,282)	
(12,544,439)	(1,577,282)	(14,121,721)	
			\$ 13,738
5,974,410	-	5,974,410	1,871
1,940,042	-	1,940,042	-
1,483,082	-	1,483,082	-
2,805,027	85,674	2,890,701	-
251,935	1,316,376	1,568,311	2,064
12,454,496	1,402,050	13,856,546	3,935
(89,943)	(175,232)	(265,175)	17,673
36,095	-	36,095	-
618,742	(618,742)	-	-
564,894	(793,974)	(229,080)	17,673
18,289,500	(3,174,471)	15,115,029	508,274
\$ 18,854,394	\$ (3,968,445)	\$ 14,885,949	\$ 525,947

Fund Financial Statements

GOVERNMENTAL FUNDS Balance Sheet

June 30, 2003

(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Assets:					
Cash and pooled investments	\$ 704,072	\$ 94,607	\$ 341,472	\$ 2,255,780	\$ 3,395,931
Investments	6,945	890,916	1,844,993	207,425	2,950,279
Taxes receivable (net of allowance)	2,379,244	-	-	94,563	2,473,807
Other receivables (net of allowance)	236,363	270,468	26,346	390,111	923,288
Due from other funds	203,412	129,997	194	259,494	593,097
Due from other governments	601,297	106,653	-	1,316,321	2,024,271
Inventories	19,279	8,357	-	32,016	59,652
Total Assets	\$ 4,150,612	\$ 1,500,998	\$ 2,213,005	\$ 4,555,710	\$ 12,420,325
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 587,476	\$ 48,381	\$ 3	\$ 252,219	\$ 888,079
Contracts and retainages payable	13,792	454	1,670	79,625	95,541
Accrued liabilities	125,253	147,202	12,136	75,879	360,470
Obligations under security lending agreements	203,550	154,638	270,521	170,978	799,687
Due to other funds	602,601	40,214	174,867	217,624	1,035,306
Due to other governments	79,526	11,434	-	124,903	215,863
Deferred revenues	1,160,907	145,985	9,335	466,904	1,783,131
Claims and judgments payable, current	9,306	-	-	31,322	40,628
Total Liabilities	2,782,411	548,308	468,532	1,419,454	5,218,705
Fund Balances:					
Reserved for:					
Encumbrances	205	1,922	-	346,696	348,823
Inventories	14,492	8,357	-	32,016	54,865
Permanent funds	-	-	1,744,473	173,849	1,918,322
Other specific purposes	33,990	217,560	-	1,157,367	1,408,917
Unreserved, designated for:					
Working capital	908,194	-	-	-	908,194
Unrealized gains	6,944	38	-	4,776	11,758
Debt service	-	-	-	100,354	100,354
Other specific purposes	-	155,679	-	168	155,847
Unreserved, undesignated	404,376	569,134	-	-	973,510
Unreserved, undesignated reported in nonmajor:					
Special Revenue Funds	-	-	-	1,211,403	1,211,403
Capital Projects Funds	-	-	-	109,627	109,627
Total Fund Balances	1,368,201	952,690	1,744,473	3,136,256	7,201,620
Total Liabilities and Fund Balances	\$ 4,150,612	\$ 1,500,998	\$ 2,213,005	\$ 4,555,710	\$ 12,420,325

The notes to the financial statements are an integral part of this statement.

State of Washington

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2003
(expressed in thousands)

Total fund balances for governmental funds	\$	7,201,620
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Non-depreciable assets	\$ 14,122,819	
Depreciable assets, net of depreciation	5,676,896	
Total capital assets		19,799,715

Some of the state's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,380,280
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Accrued current interest on general obligation bonds		(175,126)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		(106,966)
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Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds and notes payable	(8,612,613)	
Accrued interest on bonds	(152,603)	
Claims and judgments	(68,491)	
Other obligations	(411,422)	
Total long-term liabilities		(9,245,129)

Net assets of governmental activities	\$	18,854,394
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The notes to the financial statements are an integral part of this statement.

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Total
Revenues:					
Retail sales and use taxes	\$ 5,948,111	\$ -	\$ -	\$ 26,299	\$ 5,974,410
Business and occupation taxes	1,892,965	-	-	47,077	1,940,042
Property taxes	1,349,206	-	-	133,876	1,483,082
Excise taxes	514,550	-	-	68,785	583,335
Motor vehicle and fuel taxes	-	-	-	752,392	752,392
Other taxes	904,857	-	-	564,444	1,469,301
Licenses, permits, and fees	74,858	493	-	575,559	650,910
Timber sales	3,880	-	7,725	117,135	128,740
Other contracts and grants	223,678	406,671	-	14,475	644,824
Federal grants-in-aid	5,353,868	772,929	-	847,129	6,973,926
Charges for services	37,012	968,182	2	376,100	1,381,296
Investment income	35,543	55,163	94,829	66,400	251,935
Miscellaneous revenue	159,936	88,332	2,617	494,735	745,620
Contribution and donations	-	-	36,095	-	36,095
Total Revenues	16,498,464	2,291,770	141,268	4,084,406	23,015,908
Expenditures:					
Current:					
General government	495,627	-	-	307,456	803,083
Human services	8,538,428	-	-	999,444	9,537,872
Natural resources and recreation	270,501	-	-	418,750	689,251
Transportation	16,036	870	-	1,345,830	1,362,736
Education	6,910,776	2,017,734	42	543,437	9,471,989
Intergovernmental	26,774	-	-	314,597	341,371
Capital outlays	65,079	88,577	1	1,334,949	1,488,606
Debt service:					
Principal	15,815	10,037	-	415,136	440,988
Interest	205	3,965	-	413,408	417,578
Total Expenditures	16,339,241	2,121,183	43	6,093,007	24,553,474
Excess of Revenues Over (Under) Expenditures	159,223	170,587	141,225	(2,008,601)	(1,537,566)
Other Financing Sources (Uses):					
Bonds issued	-	-	-	775,487	775,487
Refunding bonds issued	-	-	-	753,160	753,160
Payment to refunded bond escrow agent	-	-	-	(790,119)	(790,119)
Notes issued	11,392	18,629	-	2,106	32,127
Bond issue premium (discount)	-	(237)	-	58,350	58,113
Capital lease acquisitions	-	7,040	-	-	7,040
Transfers in	587,990	176,227	1,688	2,009,237	2,775,142
Transfers (out)	(727,962)	(240,932)	(88,607)	(1,088,815)	(2,146,316)
Total Other Financing Sources (Uses)	(128,580)	(39,273)	(86,919)	1,719,406	1,464,634
Net change in fund balances	30,643	131,314	54,306	(289,195)	(72,932)
Fund Balances - Beginning, as restated	1,337,558	821,376	1,690,167	3,425,451	7,274,552
Fund Balances - Ending	\$ 1,368,201	\$ 952,690	\$ 1,744,473	\$ 3,136,256	\$ 7,201,620

The notes to the financial statements are an integral part of this statement.

State of Washington **Reconciliation of the Statement of Revenues, Expenditures and** **Changes in Fund Balances of Governmental Funds** **to the Statement of Activities**

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

Net change in fund balances--total governmental funds \$ (72,932)

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in governmental funds. However, in
the statement of activities, the cost of capital assets is allocated over
their estimated useful lives as depreciation expense. In the current
period, these amounts are:

Capital outlay	1,551,811	
Depreciation expense	(399,809)	
Excess of capital outlay over depreciation expense		1,152,002

Bond proceeds provide current financial resources to governmental
funds, however, issuing debt increases long-term liabilities in the
statement of net assets. In the current period, proceeds were
received from:

Bonds and bond anticipation notes issued	(775,487)	
Refunding bonds issued	(753,160)	
Notes issued	(32,127)	
Bond issue premium	(58,113)	
Capital leases issued	(7,040)	
Total bond proceeds		(1,625,927)

Repayment of long-term debt is reported as an expenditure in
governmental funds, but the repayment reduces long-term liabilities
in the statement of net assets. In the current year, these amounts
consist of:

Bond principal retirement	440,988	
Payments to the bond refunding agent	790,119	
Total long-term debt repayment		1,231,107

Internal service funds are used by management to charge the costs of
certain activities to individual funds. The net revenue of the internal
service funds is reported with governmental activities. (69,753)

Because some revenues will not be collected for several months after the state's fiscal
year ends, they are not considered "available" revenues in the governmental funds.
Deferred revenues increased by this amount this year. (42,794)

Some items reported in the statement of activities do not require the use
of current financial resources and therefore are not reported as
expenditures in governmental funds. These activities consist of:

Decrease in accrued and accreted interest	5,769	
Increase in compensated absences	(7,069)	
Increase in miscellaneous liabilities	(4,099)	
Increase in claims and judgments	(1,410)	
Total additional expenditures		(6,809)

Change in net assets of governmental activities		\$ 564,894
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The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS **Statement of Fund Net Assets**

June 30, 2003

(expressed in thousands)

	Business-Type Activities				Governmental Activities
	Enterprise Funds				
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Total	Internal Service Funds
Assets					
Current Assets:					
Cash and pooled investments	\$ -	\$ 1,071,228	\$ 633,547	\$ 1,704,775	\$ 141,523
Investments	1,568,215	-	132,135	1,700,350	1,774
Taxes receivable (net of allowance)	-	-	4,070	4,070	-
Other receivables (net of allowance)	598,883	405,117	150,258	1,154,258	5,643
Due from other funds	2,404	4,837	61,362	68,603	60,891
Due from other governments	1,282	32,284	42,299	75,865	6,466
Inventories	183	-	67,598	67,781	18,935
Prepaid expenses	26	-	6,802	6,828	1,464
Total Current Assets	2,170,993	1,513,466	1,098,071	4,782,530	236,696
Noncurrent Assets:					
Investments, noncurrent	9,170,964	-	1,007,848	10,178,812	39,138
Other noncurrent assets	-	-	75,875	75,875	-
Capital Assets:					
Land	3,240	-	80,354	83,594	1,476
Buildings	62,446	-	1,154,653	1,217,099	72,512
Other improvements and miscellaneous	1,002	-	61,143	62,145	24,950
Furnishings and equipment	24,374	-	262,804	287,178	544,277
Accumulated depreciation	(31,605)	-	(576,449)	(608,054)	(344,013)
Construction in progress	-	-	238,124	238,124	10,761
Total Noncurrent Assets	9,230,421	-	2,304,352	11,534,773	349,101
Total Assets	\$ 11,401,414	\$ 1,513,466	\$ 3,402,423	\$ 16,317,303	\$ 585,797
Liabilities					
Current Liabilities:					
Accounts payable	\$ 8,967	\$ -	\$ 106,695	\$ 115,662	\$ 36,077
Contracts and retainages payable	2,055	-	27,571	29,626	604
Accrued liabilities	127,106	-	193,568	320,674	15,530
Obligations under security lending agreements	1,568,215	-	57,790	1,626,005	1,585
Bonds and notes payable	2,723	-	67,968	70,691	6,430
Due to other funds	6,741	1	120,624	127,366	17,540
Due to other governments	-	-	2,633	2,633	1,054
Deferred revenues	14,824	-	30,689	45,513	720
Claims and judgments payable, current	1,484,543	-	49,015	1,533,558	78,141
Total Current Liabilities	3,215,174	1	656,553	3,871,728	157,681
Non-Current Liabilities:					
Claims and judgments payable, long-term	14,379,309	-	2,470	14,381,779	452,638
Bonds and notes payable	42,785	-	1,157,786	1,200,571	65,342
Other long-term liabilities	10,159	-	821,511	831,670	17,102
Total Non-Current Liabilities	14,432,253	-	1,981,767	16,414,020	535,082
Total Liabilities	17,647,427	1	2,638,320	20,285,748	692,763
Net Assets:					
Invested in capital assets, net of related debt	13,949	-	529,310	543,259	238,193
Restricted for:					
Unemployment compensation	-	1,509,887	-	1,509,887	-
Other specific purposes	-	-	63,476	63,476	-
Unrestricted	(6,259,962)	3,578	171,317	(6,085,067)	(345,159)
Total Net (Deficit) Assets	\$ (6,246,013)	\$ 1,513,465	\$ 764,103	\$ (3,968,445)	\$ (106,966)

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating Revenues:					
Sales	\$ -	\$ -	\$ 542,724	\$ 542,724	\$ 136,991
Less: Cost of goods sold	-	-	372,276	372,276	112,796
Gross profit	-	-	170,448	170,448	24,195
Charges for services	41	-	906,289	906,330	532,151
Premiums and assessments	1,286,965	1,103,053	932,141	3,322,159	65,402
Federal aid for unemployment insurance benefits	-	744,669	-	744,669	-
Lottery ticket proceeds	-	-	460,345	460,345	-
Miscellaneous revenue	29,873	27,299	129,663	186,835	26,946
Total Operating Revenues	1,316,879	1,875,021	2,598,886	5,790,786	648,694
Operating Expenses:					
Salaries and wages	105,358	-	475,485	580,843	212,031
Employee benefits	25,537	-	85,409	110,946	47,148
Personal services	5,565	-	37,791	43,356	14,717
Goods and services	62,597	-	495,299	557,896	244,748
Travel	2,661	-	16,658	19,319	3,090
Premiums and claims	2,373,605	2,328,774	885,326	5,587,705	136,480
Lottery prize payments	-	-	297,975	297,975	-
Depreciation and amortization	442	-	44,348	44,790	57,936
Miscellaneous expenses	38,335	-	61,331	99,666	11,132
Total Operating Expenses	2,614,100	2,328,774	2,399,622	7,342,496	727,282
Operating Income (Loss)	(1,297,221)	(453,753)	199,264	(1,551,710)	(78,588)
Nonoperating Revenues (Expenses):					
Earnings (loss) on investments	1,117,289	79,312	119,775	1,316,376	3,917
Interest expense	(2,534)	-	(97,942)	(100,476)	(3,129)
Distributions to other governments	-	-	(31,056)	(31,056)	-
Other revenue (expenses)	6,428	-	124,866	131,294	(4,495)
Total Nonoperating Revenues (Expenses)	1,121,183	79,312	115,643	1,316,138	(3,707)
Income (Loss) Before Contributions and Transfers	(176,038)	(374,441)	314,907	(235,572)	(82,295)
Capital Contributions	-	-	60,340	60,340	6,225
Transfers in	329,126	-	175,768	504,894	433,932
Transfers (out)	(334,616)	-	(789,020)	(1,123,636)	(427,615)
Net Contributions and Transfers	(5,490)	-	(552,912)	(558,402)	12,542
Change in Net Assets	(181,528)	(374,441)	(238,005)	(793,974)	(69,753)
Net Assets - Beginning, as restated	(6,064,485)	1,887,906	1,002,108	(3,174,471)	(37,213)
Net Assets - Ending	\$ (6,246,013)	\$ 1,513,465	\$ 764,103	\$ (3,968,445)	\$ (106,966)

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS

Statement of Cash Flows

Continued

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities:					
Receipts from customers	\$ 1,139,224	\$ 1,040,953	\$ 2,793,023	\$ 4,973,200	\$ 723,881
Payments to suppliers	(1,459,460)	(2,328,810)	(1,971,706)	(5,759,976)	(431,049)
Payments to employees	(130,754)	-	(557,995)	(688,749)	(259,301)
Other receipts (payments)	29,873	784,400	129,662	943,935	26,948
Net Cash Provided (Used) by Operating Activities	(421,117)	(503,457)	392,984	(531,590)	60,479
Cash Flows from Noncapital Financing Activities:					
Transfers in	329,126	-	175,768	504,894	433,932
Transfers out	(334,616)	-	(789,020)	(1,123,636)	(427,616)
Operating grants and donations received	6,851	-	23,501	30,352	103
Taxes and license fees collected	5	-	106,718	106,723	-
Distributions to other governments	-	-	(31,056)	(31,056)	-
Other noncapital financing activity	775	-	71	846	50
Net Cash Provided (Used) by Noncapital Financing Activities	2,141	-	(514,018)	(511,877)	6,469
Cash Flows from Capital and Related Financing Activities:					
Interest paid	(2,534)	-	(54,353)	(56,887)	(3,147)
Principal payments on long-term capital financing	(2,582)	-	(65,308)	(67,890)	(12,172)
Proceeds from long-term capital financing	13	-	573,058	573,071	23,918
Proceeds from sale of capital assets	59	-	10,210	10,269	6,027
Acquisitions of capital assets	(870)	-	(160,252)	(161,122)	(59,229)
Net Cash or Pooled Investments Provided by (Used in) Capital and Related Financing Activities	(5,914)	-	303,355	297,441	(44,603)
Cash Flows from Investing Activities:					
Receipt of interest	325,353	79,312	37,988	442,653	3,428
Proceeds from sale of investment securities	6,540,562	-	437,400	6,977,962	4,679
Purchases of investment securities	(6,444,341)	-	(518,407)	(6,962,748)	(5,947)
Net Cash Provided by (Used in) Investing Activities	421,574	79,312	(43,019)	457,867	2,160
Net Increase (Decrease) in Cash and Pooled Investments	(3,316)	(424,145)	139,302	(288,159)	24,505
Cash and Pooled Investments, July 1	3,316	1,495,373	494,245	1,992,934	117,018
Cash and Pooled Investments, June 30	\$ -	\$ 1,071,228	\$ 633,547	\$ 1,704,775	\$ 141,523
Cash Flows from Operating Activities:					
Operating Income (Loss)	\$ (1,297,221)	\$ (453,753)	\$ 199,264	\$ (1,551,710)	\$ (78,588)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:					
Depreciation	442	-	44,348	44,790	57,936
Provision for uncollectible accounts	31,780	-	9,759	41,539	35
Change in Assets: Decrease (Increase)					
Receivables (net of allowance)	(147,236)	(49,668)	(50,475)	(247,379)	(10,945)
Inventories	10	-	(129)	(119)	121
Prepaid expenses	(25)	-	898	873	430
Change in Liabilities: Increase (Decrease)					
Payables	991,133	(36)	189,319	1,180,416	91,490
Net Cash or Cash Equivalents Provided by (Used in) Operating Activities	\$ (421,117)	\$ (503,457)	\$ 392,984	\$ (531,590)	\$ 60,479

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS

Statement of Cash Flows

Concluded

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	Business Type Activities Enterprise Funds			Total	Governmental Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds		Internal Service Funds
Noncash Investing, Capital and Financing Activities:					
Contributions of capital assets	\$ -	\$ -	\$ 60,340	\$ 60,340	\$ 6,225
Amortization of long-term lotto prize liability	-	-	35,743	35,743	-
Increase (decrease) in fair value of investments	791,936	-	81,334	873,270	494
Refunding bonds issued	-	-	7,650	7,650	-
Refunded bonds redeemed	-	-	(7,425)	(7,425)	-
Gain (loss) on on refunding activity	-	-	(225)	(225)	-
Amortization of debt premium (issue costs/discount)	-	-	795	795	-
Accretion of interest on zero coupon bonds	-	-	3,253	3,253	-

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

Statement of Fiduciary Net Assets

June 30, 2003

(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Assets:				
Cash and pooled investments	\$ 44,907	\$ 2,774,168	\$ 33,316	\$ 159,502
Investments	-	2,405,385	-	-
Other receivables (net of allowance)	4,321	4,516	140,575	50,069
Due from other funds	7,230	-	262,635	522,731
Due from other governments	3,368	-	40,477	25,578
Prepaid expenses	702	-	-	-
Total Current Assets	60,528	5,184,069	477,003	757,880
Noncurrent Assets:				
Investments, noncurrent	31,273	143,941	42,938,536	23,812
Other noncurrent assets	16	-	-	76,674
Capital Assets:				
Land	7	-	-	-
Buildings	6,868	-	-	-
Other improvements	378	-	-	-
Furnishings and equipment	7,539	-	-	-
Accumulated depreciation	(8,233)	-	-	-
Total Noncurrent Assets	37,848	143,941	42,938,536	100,486
Total Assets	\$ 98,376	\$ 5,328,010	\$ 43,415,539	\$ 858,366
Liabilities:				
Accounts payable	\$ 3,532	\$ -	\$ -	\$ 14,473
Contracts and retainages payable	1	-	-	14,101
Accrued liabilities	11,396	199,856	37,730	265,480
Obligations under security lending agreements	-	143,941	1,438,530	14,176
Due to other funds	3,687	34	267,302	63,952
Due to other governments	171	-	-	404,708
Deferred revenues	1,820	-	-	-
Other long-term liabilities	14,953	-	-	81,476
Total Liabilities	35,560	343,831	1,743,562	\$ 858,366
Net Assets:				
Net assets held in trust for:				
Pension benefits	-	-	40,209,042	-
Deferred compensation participants	-	-	1,462,935	-
Local government pool participants	-	4,984,179	-	-
Individuals, organizations & other governments	62,816	-	-	-
Total Net Assets	\$ 62,816	\$ 4,984,179	\$ 41,671,977	

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	Private- Purpose Trust	Local Government Investment Pool	Pension and Other Employee Benefit Plans
Additions:			
Contributions:			
Employers	\$ -	\$ -	\$ 166,842
Members	-	-	444,046
State	-	-	25,954
Pool participants	-	11,674,605	135,901
Total Contributions	-	11,674,605	772,743
Investment Income:			
Net appreciation (depreciation) in fair value	-	-	611,438
Interest and dividends	20,465	75,948	1,036,653
Less: Investment expenses	-	-	(88,654)
Net Investment Income	20,465	75,948	1,559,437
Transfers from other pension plans	-	-	613,393
Other additions:			
Charges for services	8,941	-	-
Federal grants-in-aid	186,362	-	-
Other contracts, grants and miscellaneous	164,878	-	1,196
Total other additions	360,181	-	1,196
Total Additions	380,646	11,750,553	2,946,769
Deductions:			
Pension benefits	-	-	1,862,914
Pension refunds	-	-	85,708
Transfers to other pension plans	-	-	613,393
Administrative expenses	25,922	4,382	3,000
Distributions to pool participants	-	12,177,407	68,469
Payments to or on behalf of individuals, organizations and other governments in accordance with trust agreements	331,264	-	-
Total Deductions	357,186	12,181,789	2,633,484
Net Increase (Decrease) Before Transfers	23,460	(431,236)	313,285
Transfers in	45,944	-	-
Transfers (out)	(62,345)	-	-
Net Increase (Decrease)	7,059	(431,236)	313,285
Net Assets - Beginning, as restated	55,757	5,415,415	41,358,692
Net Assets - Ending	\$ 62,816	\$ 4,984,179	\$ 41,671,977

The notes to the financial statements are an integral part of this statement.

COMPONENT UNITS

Statement of Fund Net Assets

June 30, 2003

(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
Assets			
Current Assets:			
Cash and pooled investments	\$ 3,876	\$ 4,157	\$ 8,033
Investments	-	30,635	30,635
Other receivables (net of allowance)	10	1,599	1,609
Prepaid expenses	33	256	289
Total Current Assets	3,919	36,647	40,566
Noncurrent Assets:			
Investments, noncurrent	21,287	2,222	23,509
Other noncurrent assets	-	15,947	15,947
Capital Assets:			
Land	34,677	-	34,677
Buildings	452,301	-	452,301
Furnishings and equipment	25,605	1,104	26,709
Accumulated depreciation	(25,390)	(784)	(26,174)
Total Noncurrent Assets	508,480	18,489	526,969
Total Assets	\$ 512,399	\$ 55,136	\$ 567,535
Liabilities			
Current Liabilities:			
Accounts payable	\$ 186	\$ 1,292	\$ 1,478
Contracts and retainages payable	2,342	-	2,342
Accrued liabilities	45	66	111
Deferred revenues	-	657	657
Total Current Liabilities	2,573	2,015	4,588
Non-Current Liabilities:			
Other long-term liabilities	37,000	-	37,000
Total Non-Current Liabilities	37,000	-	37,000
Total Liabilities	39,573	2,015	41,588
Net Assets:			
Invested in capital assets, net of related debt	447,851	320	448,171
Restricted for deferred sales tax	21,287	-	21,287
Unrestricted	3,688	52,801	56,489
Total Net (Deficit) Assets	\$ 472,826	\$ 53,121	\$ 525,947

The notes to the financial statements are an integral part of this statement.

COMPONENT UNITS

Statement of Revenues, Expenses, and Changes in Fund Net Assets

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	Public Stadium	Nonmajor Component Units	Total
Operating Revenues:			
Charges for services	\$ 852	\$ 9,211	\$ 10,063
Total Operating Revenues	852	9,211	10,063
Operating Expenses:			
Salaries and wages	378	3,480	3,858
Employee benefits	50	885	935
Personal services	170	493	663
Goods and services	255	2,620	2,875
Travel	10	24	34
Depreciation and amortization	18,579	123	18,702
Miscellaneous expenses	-	2	2
Total Operating Expenses	19,442	7,627	27,069
Operating Income (Loss)	(18,590)	1,584	(17,006)
Nonoperating Revenues (Expenses):			
Earnings (loss) on investments	225	1,839	2,064
Grants and Donations	-	213	213
Pass through of HUD grant	-	(213)	(213)
Sales tax	1,871	-	1,871
Interest expense	-	(467)	(467)
Total Nonoperating Revenues (Expenses)	2,096	1,372	3,468
Net Income (Loss) before Contributions	(16,494)	2,956	(13,538)
Contributions of capital	31,211	-	31,211
Change in Net Assets	14,717	2,956	17,673
Net Assets - Beginning	458,109	50,165	508,274
Net Assets - Ending	\$ 472,826	\$ 53,121	\$ 525,947

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2003

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Note 1 - Summary of Significant Accounting Policies

The accompanying financial statements of the state of Washington have been prepared in conformity with generally accepted accounting principles (GAAP). The Office of Financial Management (OFM) is the primary authority for the state's accounting and reporting requirements. OFM has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. For government-wide and enterprise fund reporting, the state follows only those private-sector standards issued on or before November 30, 1989, unless those pronouncements conflict with or contradict the pronouncements of the GASB. The more significant of the state's accounting policies follow.

A. Reporting Entity

In evaluating how to define the state of Washington, for financial reporting purposes, management has considered: all funds, organizations, institutions, agencies, departments, and offices that are legally part of the state (the primary government); organizations for which the state is financially accountable; and other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the state's financial statements to be misleading or incomplete.

Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or charges without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

Based on these criteria, the following are included in the financial statements of the primary government:

STATE AGENCIES - Except as otherwise described herein, all state elected offices, departments, agencies, commissions, boards, committees, authorities, and councils (agencies) and all funds and account groups of the state are included in the primary government. Executives of these agencies are either elected, directly appointed by the Governor, appointed by a board which is appointed by the Governor, or appointed by a board which is in part appointed by the Governor.

Additionally, a small number of board positions are established by statute or independently elected. The state Legislature creates these agencies, assigns their programs, approves operational funding, and requires financial accountability. The Legislature also authorizes all bond issuances for capital construction projects for the benefit of state agencies. The legal liability for these bonds and the ownership of agency assets reside with the state.

COLLEGES AND UNIVERSITIES - The governing boards of the five state universities, the state college, and the 33 state community and technical colleges are appointed by the Governor. Each college's governing board appoints a president to function as chief administrator. The state Legislature approves budgets and budget amendments for the colleges' appropriated funds, which include the state's General Fund as well as certain capital projects funds. The state Treasurer issues general obligation debt for major campus construction projects. However, the colleges are authorized to issue revenue bonds for construction of facilities for certain revenue generating activities such as housing, dining, and parking. These revenue bonds are payable solely from and secured by fees and revenues derived from the operation of constructed facilities; the legal liability for the bonds and the ownership of the college assets reside with the state. Colleges do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges are legally part of the state, their financial operations, including their blended component units, are reported in the primary government financial statements using the fund structure prescribed by GASB, not discretely reported according to the fund structure of the American Institute of Certified Public Accountants college and university reporting model.

RETIREMENT SYSTEMS - The state of Washington, through the Department of Retirement Systems, administers seven retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement System, the Teachers' Retirement System, the School Employees' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges Retirement Fund. The director of the Department of Retirement Systems is appointed by the Governor.

There are two additional retirement systems administered outside of the Department of Retirement Systems. The Volunteer Fire Fighters' Relief and Pension Fund is administered through the Board for Volunteer Fire Fighters, which is appointed by the Governor. The Judicial Retirement Account is administered through the Administrator for the Courts under the direction of the Board for Judicial Administration.

The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The participants of the public retirement systems together with the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels.

All nine of the aforementioned retirement systems are included in the primary government's financial statements.

BLENDED COMPONENT UNIT

Blended component units are entities that are legally separate from the state but reported as if part of the state when they exist for the exclusive benefit of the state. The following is blended in the state's financial statements:

TOBACCO SETTLEMENT AUTHORITY (TSA) – The TSA was created by the Washington State Legislature in March 2002 as a public instrumentality separate and distinct from the state. It is governed by a five-member board appointed by the governor. It was created to issue bonds to securitize a portion of the state's future tobacco settlement revenue in order to generate funds for increased costs of health care, long-term care, and other programs of the state. In November 2002, the TSA issued \$517 million in bonds and transferred \$450 million to the state in exchange for 29.2 percent of the state's tobacco settlement revenue stream for the estimated 17-year period that the bonds remain outstanding.

DISCRETE COMPONENT UNITS

Discrete component units are entities which are legally separate from the state but which are financially accountable to the state. The following are discretely presented in the financial statements of the state in the component units column:

The WASHINGTON STATE HOUSING FINANCE COMMISSION, the WASHINGTON HIGHER EDUCATION FACILITIES AUTHORITY, the WASHINGTON HEALTH CARE FACILITIES AUTHORITY, and the WASHINGTON ECONOMIC DEVELOPMENT FINANCE AUTHORITY (financing authorities) were created by the Legislature in a way that specifically prevents them from causing the state to be liable or responsible for their acts and obligations, including, but not limited to, any obligation to pay principal and interest on financing authority bonds. The financing authorities cannot obligate the state, either legally or morally, and the state has not assumed any obligation of, or with respect to, the financing authorities.

The financing authorities are reported as discrete component units because state officials either serve on or appoint the members of the governing bodies of the authorities. The state also has the ability to influence the operations of the authorities through legislation.

Financial reports of these financing authorities may be obtained from each authority at the following addresses:

Washington Health Care Facilities Authority
410 - 11th Avenue SE, Suite 201
PO Box 40935
Olympia, WA 98504-0935

Washington State Housing Finance Commission
Washington Higher Education Facilities Authority
Washington Economic Development Finance Authority
1000 Second Avenue, Suite 2700
Seattle, WA 98104-1046

The WASHINGTON STATE PUBLIC STADIUM AUTHORITY (PSA) was created by the Legislature to acquire, construct, own, and operate a stadium, exhibition center, and parking garage. The state has budget approval authority over a majority of PSA's funding sources. Further, conditioned upon certain events occurring, the state is authorized to issue and has issued general obligation bonds to participate in the funding of project construction costs. Under statute, the state's share of the total project cost is capped at \$300 million. Project costs in excess of \$300 million are the responsibility of the project's private partner, First & Goal, Inc. The bonds will be repaid through new state lottery games, a state sales tax credit, extension of the local hotel/motel tax, and parking and admissions taxes

at the new facility. Financial reports of the PSA may be obtained at the following address:

Washington State Public Stadium Authority
401 Second Avenue South, Suite 520
Seattle, WA 98104-0280

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The state presents two basic government-wide financial statements: the Statement of Net Assets and the Statement of Activities. These government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. The financial information for the primary government is distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

Statement of Net Assets – The Statement of Net Assets presents the state’s non-fiduciary assets and liabilities. As a general rule, balances between governmental and business-type activities are eliminated.

Assets and liabilities are presented in a net assets format in order of liquidity. Net assets are classified into three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

Statement of Activities - The Statement of Activities reports the extent to which each major state program is supported by general state revenues or is self-financed through fees and intergovernmental aid. For governmental activities, a major program is defined as a function. For business-type activities, a major program is an identifiable activity.

Program revenues offset the direct expenses of major programs. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues are identified using the following criteria:

- Charges to customers for goods and services of the program. A customer is one who directly benefits from the goods or services or is otherwise directly affected by the program, such as a state citizen or taxpayer, or other governments or nongovernmental entities.
- Amounts received from outside entities that are restricted to one or more specific program. These amounts can be operating or capital in nature.
- Earnings on investments that are restricted to a specific program are also considered program revenues.

General revenues consist of taxes and other items not meeting the definition of program revenues.

Generally the effect of internal activities is eliminated. Exceptions to this rule include charges between the health insurance and workers’ compensation insurance programs and various other state programs and functions. Elimination of these charges would distort the direct costs and revenues reported for the various activities involved.

Fund Financial Statements

The state uses 500 accounts that are combined into 54 rollup funds. The state presents separate financial statements for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements, with nonmajor funds being combined into a single column regardless of fund type. Internal service and fiduciary funds are reported by fund type. Major funds include:

Major Governmental Funds:

- **General Fund** is the state’s primary operating fund. This fund is used to account for all financial resources and transactions not required to be accounted for in other funds.
- **Higher Education Special Revenue Fund** primarily accounts for grants and contracts received for research and other educational purposes. This fund also accounts for charges for services by state institutions of higher education.

- **Higher Education Endowment Fund** is used by the state to account for gifts and bequests that the donors have specified must remain intact. Each gift is governed by various restrictions on the investment and use of the funds.

Major Enterprise Funds:

- **Workers' Compensation Fund** is used to account for the workers' compensation program that provides medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries.
- **Unemployment Compensation Fund** is used to account for the unemployment compensation program. It accounts for the deposit of funds requisitioned from the Federal Unemployment Trust Fund, to provide services to eligible participants within the state, and to pay unemployment benefits.

The state includes the following governmental and proprietary fund types within nonmajor funds:

Nonmajor Governmental Funds:

- **Special Revenue Funds** are used to account for a variety of state programs including public safety and health assistance programs; natural resource and wildlife protection and management programs; the state's transportation programs which include the operation of the state's ferry system and maintenance and preservation of non-interstate highway system; K-12 school construction; and construction and loan programs for local public works projects.
- **Debt Service Funds** are used by the state to account for the accumulation of resources for, and the payment of, principal and interest on the state's general obligation bonds.
- **Capital Projects Funds** are used to account for the acquisition, construction, and remodeling of public buildings including higher education facilities.
- **Common School Permanent Fund** accounts for the principal derived from the sale of timber. Interest earned is used for the benefit of common schools.

Nonmajor Proprietary Funds:

- **Enterprise Funds** are used to account for the state's business type operations including: the health insurance program; student housing and dining, parking and bookstore operations; the state lottery; state liquor stores; the guaranteed

tuition and college savings program; and the convention and trade center.

- **Internal Service Funds** are used to account for the provision of legal, motor pool, data processing, risk management, and other services by one department or agency to other departments or agencies of the state on a cost-reimbursement basis.

The state reports the following fiduciary funds:

- **Pension (and other employee benefit) Trust Funds** - are used to report resources that are required to be held in trust by the state for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, and other employee benefit plans.
- **Local Government Investment Pool (LGIP)** is used to report the external portion of LGIP, which is reported, by the state as the sponsoring government.
- **Private-Purpose Trust Funds** are used to report trust arrangements, other than pension and investment trusts, under which principal and income benefit individuals, private organizations, or other governments. Examples include administration of grants in aid for rural hospitals and unclaimed property.
- **Agency Funds** - are used to account for resources held by the state in a purely custodial capacity for other governments, private organizations or individuals.

Operating and Non-operating Revenues and Expenses

- The state's proprietary funds make a distinction between operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing goods and services directly related to the principal operations of the funds. For example, operating revenues for the state's workers' compensation and health insurance funds consist of premiums collected and investment earnings. Operating expenses consist of the claims paid to covered individuals, claims adjustment expenses, costs of commercial insurance coverage and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating, including interest expense and investment gains and losses.

Application of Restricted/Unrestricted Resources

- When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Measurement Focus and Basis of Accounting

For government-wide reporting purposes, the state uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For fund statement reporting purposes, the state uses the current financial resources measurement focus and modified accrual basis of accounting for governmental funds. With the current financial resources measurement focus, generally only current assets and current liabilities are included on the balance sheet. Operating statements for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be reasonably estimated. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenues that are determined to be susceptible to accrual include sales taxes, business and occupation taxes, motor fuel taxes, federal grants-in-aid, and charges for services.

Revenues from property taxes are determined to be available if collected within 60 days. Revenue for timber cutting contracts is accrued when the timber is harvested. Revenues from licenses, permits, and fees are recognized when received in cash. Revenues related to expenditure driven grant agreements are recognized when the qualifying expenditures are made. All other accrued revenue sources are determined to be available if collectible within 12 months.

Property taxes are levied in December for the following calendar year. The first half-year collections are due by April 30, and the second half-year collections are due by October 31. Since the state is on a fiscal year ending June 30, the first half-year collections are recognized as revenue, if collected within 60 days of the fiscal year end. The second half-year collections are recognized as receivables offset by deferred revenue. The lien date on property taxes is January 1 of the tax levy year.

Under modified accrual accounting, expenditures are recognized when the related fund liability is incurred. Exceptions to the general modified accrual expenditure recognition criteria include unmatured interest on general

long-term obligations which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The state reports deferred revenues on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and the “available” criteria for revenue recognition in the current period. Deferred revenues also arise when resources are received by the state before it has a legal claim to them, such as when grant monies are received prior to the incurrence of qualifying expenditures.

All proprietary and trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the statement of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net assets. Net assets are presented as 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

D. General Budgetary Policies and Procedures

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules presented as Required Supplementary Information (RSI) are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2001-2003 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113. For additional budgetary information, please refer to the notes to RSI presented later in this report.

E. Cash and Investments

Investments of surplus or pooled cash balances are reported on the accompanying Statements of Net Assets, Balance Sheets and Statements of Cash Flows as “Cash and Pooled Investments.” The Office of the State Treasurer invests state treasury cash surpluses where funds can be disbursed at any time without prior notice or penalty. As a result, the cash balances of funds with surplus pooled balances are not reduced for these investments. For reporting purposes, pooled cash is stated at fair value or amortized cost, which approximates fair value. For the purposes of the Statement of Cash Flows, the state considers cash and short-term, highly-liquid investments, that are both readily convertible to cash and are so near their maturity dates that they present insignificant risk of changes in value because of changes in interest rates, to be cash equivalents.

The method of accounting for noncurrent investments varies depending upon the fund classification. Investments in the state’s Local Government Investment Pool (LGIP), an external investment pool operated in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940, are reported at amortized cost. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

All other noncurrent investments are reported at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture capital and leveraged buy-out investments are determined by independent investment advisors based on analysis of the audited financial statements of the underlying partnerships. For information on derivative financial instruments utilized by the state, refer to Note 3.

F. Receivables

Receivables in the state’s governmental funds consist primarily of tax and federal revenues. Receivables in all other funds have arisen in the ordinary course of business. Receivables are recorded when either the asset or revenue recognition criteria (refer to Note 1.C) have been met. All receivables are reported net of an allowance for accounts estimated to be uncollectible.

For government-wide reporting purposes, amounts recorded as interfund/interagency receivables and

payables are eliminated in the governmental and business-type activities columns on the Statement of Net Assets, except for the net residual balance that is reported as “internal balances.” Amounts recorded in governmental and business-type activities as due to or from fiduciary funds have been reported as due to or from other governments.

G. Inventories

Consumable inventories, consisting of expendable materials and supplies held for consumption, are reported in the state’s financial statements if the annual balance on hand within an agency is estimated to be \$25,000 or more. Consumable inventories are generally valued at cost using the first-in, first-out method. Donated consumable inventories are recorded at fair market value. Food stamps on hand are recorded at face value.

Merchandise inventories are generally valued at cost using the first-in, first-out method. All merchandise inventories are considered reportable for financial statement purposes.

For governmental activities, inventories are recorded using the consumption method. For business-type activities, inventories are expensed when used or sold.

For governmental fund reporting, inventory balances are also recorded as a reservation of fund balance indicating that they do not constitute “available spendable resources” except for \$54 thousand in food stamps and \$4.7 million in federally donated consumable inventories, both of which are offset by deferred revenues because they do not constitute a fund resource until issued or consumed.

H. Capital Assets

Except as noted below, it is the state’s policy to capitalize all land; all additions and improvements to the state highway system; infrastructure, other than the state highway system, with a cost of \$100,000 or greater; and all other capital assets with a unit cost of \$5,000 or greater.

Art collections, library reserve collections, and museum and historical collections, that are considered inexhaustible in that their value does not diminish over time, are not capitalized by the state if all of the following conditions are met:

- The collection is held for public exhibition, education or research in furtherance of public service, rather than financial gain.
- The collection is protected, kept unencumbered, cared for, and preserved.

- The collection is subject to policy requirements that the proceeds from sales of collection items be used to acquire other items for the collection.

Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of less than \$10,000 are not capitalized.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the state's capital assets are not capitalized.

Donated capital assets are valued at their estimated fair market value on the date of donation, plus all appropriate ancillary costs. When the fair market value is not practically determinable due to lack of sufficient records, estimated cost is used. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

The value of assets constructed by agencies for their own use includes all direct construction costs and indirect costs that are related to the construction. In proprietary and trust fund type accounts, net interest costs (if material) incurred during the period of construction are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Generally, estimated useful lives are as follows:

Buildings & building components	5-50 years
Furnishings, equipment & collections	5-50 years
Other improvements	3-50 years
Infrastructure	20-50 years

The cost and related accumulated depreciation of capital assets retired from service, or disposed of, are removed from the accounting records.

The state capitalizes the state highway system as a network but does not depreciate it since the system is being preserved approximately at or above a condition level established by the state. That condition level is documented and disclosed. Additionally, the highway system is managed using an asset management system that includes:

- Maintenance of an up-to-date inventory of system assets,
- Performance of condition assessments of the assets at least every three years with

summarization of the results using a measurement scale, and

- Annual estimation of the amount to maintain and preserve the assets at the condition level established and disclosed.

All state highway system expenditures that preserve the useful life of the system are expensed in the period incurred. Additions and improvements that increase the capacity or efficiency of the system are capitalized. This approach of reporting condition instead of depreciating the highway system is called the Modified Approach.

For government-wide financial reporting purposes, capital assets of the state are reported as assets in the applicable governmental or business-type activities column on the Statement of Net Assets. Depreciation expense related to capital assets is also reported in the Statement of Activities. Capital assets and the related depreciation expense are also reported in the proprietary fund financial statements.

For governmental fund reporting, capital assets are not reported on the balance sheet. Instead, capital acquisitions and construction are reflected as expenditures in the year acquired. No depreciation is reported.

I. Compensated Absences

State employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date.

Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the state does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the state is liable for 25 percent of the employee's accumulated sick leave. In addition, the state has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave.

It is the state's policy to liquidate unpaid compensated absence leave outstanding at June 30 with future resources rather than advance funding it with currently available expendable financial resources.

For government-wide reporting purposes, the state reports compensated absence obligations as liabilities in the applicable governmental or business-type activities columns on the Statement of Net Assets.

For fund statement reporting purposes, governmental funds recognize an expenditure for annual and sick leave when it is paid. Proprietary and trust funds recognize the expense and accrue a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned.

J. Long-Term Liabilities

In the government-wide and proprietary fund financial statements, long-term obligations of the state are reported as liabilities on the Statement of Net Assets. Bonds payable are reported net of applicable premium or discount. When material, bond premiums, discounts, and issue costs are deferred and amortized over the life of the bonds.

For governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuance are also reported as other financing sources and uses respectively. Issue costs are reported as debt service expenditures.

K. Fund Equity

In the fund financial statements, governmental funds report the difference between fund assets and fund liabilities as “Fund Balance.” Reserved fund balance represents that portion of fund balance that is: (1) not available for appropriation or expenditure, and/or (2) legally segregated for a specific future use. Unreserved, designated fund balance indicates tentative plans for future use of financial resources. Unreserved, undesignated fund balance represents the amount available for appropriation.

L. Insurance Activities

Workers’ Compensation

The state of Washington’s workers’ compensation program is established by Title 51 RCW. The statute requires all employers to insure payment of benefits for job related injuries and diseases through the Workers’ Compensation Fund or through self-insurance. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations through private insurers.

The Workers’ Compensation Fund, an enterprise fund, is used to account for the workers’ compensation program which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main benefit plans of the workers’ compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only

allowed to collect enough revenue to fund the current COLA payments.

Premiums are based on individual employers’ reported payroll hours and insurance rates based on each employer’s risk classification(s) and past experience. In addition to its regular premium plans, the Workers’ Compensation Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers’ loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Workers’ Compensation Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Risk Management

Washington State operates a risk management liability program pursuant to RCW 4.92.130. The state manages its tort claims as an insurance business activity rather than a general governmental activity. The state’s policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, the state management believes it is more economical to manage its risks internally and set aside assets for claims settlement in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for employee bonds and to limit the exposure to catastrophic losses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Otherwise, the risk management liability program services all claims against the state for injuries and property damage to third parties. The majority of state funds and agencies participate in the risk management

liability program in proportion to the anticipated exposure to liability losses.

Health Insurance

The state of Washington administers and provides medical, dental, basic life, and long-term disability insurance coverage for eligible state employees. In addition, the state offers coverage to K-12 school districts, educational service districts, political subdivisions and employee organizations representing state civil service workers. The state establishes eligibility requirements and approves plan benefits of all participating health care organizations.

The state's share of the cost of coverage for state employees is based on a per capita amount determined annually by the Legislature and allocated to state agencies. The Health Care Authority, as administrator of the health care benefits program, collects this monthly "premium" from agencies for each active employee enrolled in the program. State employees self-pay for coverage beyond the state's contribution. Cost of coverage for non-state employees is paid by their respective employers. Most coverage is also available on a self-paid basis to eligible retirees, former employees, and employees who are temporarily not in pay status.

The state secures commercial insurance for certain coverage offered, but self-insures the risk of loss for the Uniform Medical Plan. Thirty-two percent of eligible subscribers were enrolled in the Uniform Medical Plan in Fiscal Year 2003. Claims are paid from premiums collected, and claims adjudication is contracted through a third-party administrator. Considerations in calculating liabilities include frequency of claims, administrative costs, industry inflation trends, advances in medical

technology, and other social and economic factors. Liabilities include an amount for claims incurred but not reported.

M. Interfund/Interagency Activities

The state engages in two major categories of interfund/interagency activity: reciprocal and nonreciprocal.

Reciprocal interfund/interagency activity is the internal counterpart to exchange and exchange-like transactions and includes both interfund loans and services provided and used. Nonreciprocal activity is nonexchange in nature and includes both transfers and reimbursements.

N. Donor-restricted Endowments

The state reports endowments in higher education endowment permanent accounts. These accounts are established outside of the state treasury for use by the higher education institutions. State law permits the governing boards of the institutions to appropriate for expenditure as much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund as is deemed prudent under the facts and circumstances prevailing at the time.

Generally, the institutions use a five percent spending rate policy for authorizing and spending investment income.

The net appreciation available for authorization for expenditure by the governing board totaled \$79.1 million and is reported in the nonexpendable portion of the reserve for permanent funds.

Note 2 - Accounting and Reporting Changes

Fund equity at July 1, 2002, has been restated as follows (expressed in thousands):

	Fund equity at June 30, 2002, as previously reported	Fund Reclassification	Fund equity as restated, July 1, 2002
Governmental Funds:			
General	\$ 1,337,558	-	\$ 1,337,558
Higher Education Special Revenue	695,988	125,388	821,376
Higher Education Endowment	1,690,167	-	1,690,167
Nonmajor Governmental	3,408,277	17,174	3,425,451
Proprietary Funds:			
Enterprise Funds:			
Workers' Compensation	(6,064,485)	-	(6,064,485)
Unemployment Compensation	1,887,906	-	1,887,906
Nonmajor Enterprise Funds	1,002,108	-	1,002,108
Internal Service Funds:			
Nonmajor Internal Service Funds	(37,213)	-	(37,213)
Fiduciary Funds:			
Private Purpose Trust	202,413	(146,656)	55,757
Local Government Investment Pool	5,415,415	-	5,415,415
Pension and Other Employee Benefit Plans	41,358,692	-	41,358,692
Component Units:			
Public Stadium	458,109	-	458,109
Nonmajor Component Units	50,165	-	50,165

Fund Reclassification – The state implemented the provisions of GASB Statement No. 34 and No. 37 for Fiscal Year 2002 financial reporting purposes. During Fiscal Year 2003, it was discovered that certain accounts

were misclassified as private-purpose trusts. As a result, certain beginning fund balances were required to be restated to effect proper fund classification.

Note 3 - Deposits and Investments

As of June 30, 2003, the carrying amount of Washington's cash and investments was \$68.7 billion. Total cash and investments at fiscal year-end amounted to \$68.9 billion, including cash from outstanding checks and warrants. Of this amount, cash on hand amounted to

\$50.7 million, deposits with financial institutions amounted to \$1.4 billion, and deposits in the federal Unemployment Trust Fund amounted to \$1.1 billion. The remaining \$66.4 billion represented the total carrying amount of investments.

Deposits by type, at June 30, 2003, are as follows (expressed in thousands):

Type of Deposit	Carrying Amount	Bank Balance	Insured/ Collateralized	Uninsured/ Uncollateralized
Demand deposits	\$ 142,781	\$ 277,218	\$ 276,745	\$ 473
Certificates of deposit	990,044	990,044	990,042	2
Cash with fiscal and escrow agents	173,418	109,622	81,757	27,865
Total Deposits	\$ 1,306,243	\$ 1,376,884	\$ 1,348,544	\$ 28,340

DEPOSITS - At fiscal year end, 97.7 percent of the state's deposits with financial institutions were either insured or collateralized, with the remainder uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the state's insured deposits. The Washington Public Deposit Protection Commission (PDPC) provides collateral protection. The PDPC (established under Chapter 39.58 of the Revised Code of Washington) constitutes a multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the PDPC's agent in the name of the collateral pool.

INVESTMENTS - The State Investment Board, the Office of the State Treasurer, and the University of Washington manage approximately 97.4 percent of the state's investing activity. Management responsibilities and investment instruments as authorized by statute follow:

STATE INVESTMENT BOARD (SIB) - Statute designates SIB as having investment management responsibility for pension funds, the Workers' Compensation Fund, permanent funds (established at statehood), and other specific funds. Pursuant to statute (Chapter 43.33A RCW) and SIB policy, SIB is authorized and invests in the following: Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. government and agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; nondollar bonds; investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to investment corporations, partnerships, and limited liability

companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

The SIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options, to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. SIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the SIB authority to invest in derivatives, international active equity managers may make limited investment in financial futures, forward contracts, or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2003. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of the use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2003, the only derivative securities held directly by SIB were collateralized mortgage obligations (CMO's) of \$3.3 billion.

State law and Board policy permit the SIB to participate in securities lending transactions. The Board has entered into agreements with State Street Corporation (SSC) to act as agent for the SIB in securities lending transactions. As SSC is the custodian bank for the SIB, it is a counterparty to securities lending transactions. Therefore, all cash collateral reinvested by SSC is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the SIB's agents with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, or were securities whose primary trading market was located in the United States, or were sovereign debt that was issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2003 approximated \$3.1 and \$3.0 billion, respectively.

During Fiscal Year 2003, securities lending transactions could be terminated on demand by either the SIB or the borrower. The average term of overall loans was 45 days.

Cash collateral was invested by the SIBs agents in securities issued or guaranteed by the U.S. government, the SIBs short-term investment pool (average weighted maturity of 358 days), or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Noncash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were loaned with the agreement that they could be returned in the future for exchange of the collateral. SSC indemnified the SIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. SSC responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2003, there were no significant violations of legal or contractual provisions nor failures by any borrower to return loaned securities or to pay distributions thereon. Further, the SIB incurred no losses

during Fiscal Year 2003 resulting from a default by either the borrowers or the securities lending agents.

The SIB has entered into a number of agreements that commit the state, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2003, the state had the following unfunded investment commitments (expressed in thousands):

Private equity partnerships	\$ 5,178,999
Real estate	888,552

OFFICE OF THE STATE TREASURER (OST) - The OST operates the state's Cash Management Account for investing cash in excess of daily requirements. Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker's acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST, which has contracted with a lending agent to lend securities, earns a fee for this activity. The OST lending agent lends U.S. Government and U.S. Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines approved by the OST. The securities held as collateral and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.

At June 30, 2003, securities on loan approximated \$383 million. All OST securities on loan were collateralized by cash and other securities and are classified in the schedule of custodial credit risk according to the category for the collateral received on the securities lent. On June 30, 2003, the average life of both the loans and the investment of cash received as collateral was one day.

The OST investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During Fiscal Year 2003, the OST had no credit risk exposure to

borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST. There were no violations of legal or contractual provisions or any losses resulting from a default of a borrower or lending agent during the fiscal year.

Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by the OST's custodian in the state's name. Collateral for mortgage-backed repurchase agreements with a maturity date longer than seven days will be priced at 105 percent of fair value, plus accrued interest. Collateralized Mortgage Obligations (CMO) used as collateral for repurchase agreements must pass the Federal Financial Institutions Examination Council (FFIEC) test, or not exceed a volatility rating of V-5 by Fitch Investor Services, or a similar rating of a nationally recognized rating agency.

State law also permits the OST to enter into reverse repurchase agreements, which are, by contract, sales of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The fair value of the securities pledged as collateral by the OST underlying the reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in the fair value of the securities. If the dealers default on their obligations to resell these securities to the OST or to provide equal value in securities or cash, the OST would suffer an economic loss equal to the differences between the fair value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The OST investment policy limits the amount of reverse repurchase agreements to 30 percent of the total portfolio. During the fiscal year, the OST did not enter into any reverse repurchase agreements and there were no obligations under reverse repurchase agreements outstanding at year-end.

UNIVERSITY OF WASHINGTON – The University's investment policies permit it to lend its securities to

broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The University's custodian lends securities of the type on loan at year-end for collateral in the form of cash or other securities. U.S. securities are loaned versus collateral valued at 102 percent of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105 percent of the fair value of the securities plus any accrued interest. At year-end, the University has no credit risk exposure to borrowers because the amounts the University owes the borrowers exceed the amounts the borrowers owe the University. The contract with the custodian requires it to indemnify the University if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the University for income distributions by the securities' issuers while the securities are on loan. Either the University or the borrower can terminate all securities loans on demand, although the average term of overall loans is ten days. Cash collateral is invested in a short-term investment pool. The relationship between the maturities of the investment pool and the University's loans is affected by the maturities of the securities loans made by other entities that use the custodian's pool, which the University cannot determine. Non-cash collateral cannot be sold unless the borrower defaults. Securities on loan at June 30, 2003, totaled \$453 million.

The University's investments include certain derivative instruments and structured notes that derive their value from a security, asset, or index. Such investments are governed by the University's Investment Policies and Guidelines, which effectively constrain their use by establishing (a) duration parameters which limit price sensitivity to interest rate fluctuations (market risk), (b) minimum quality ratings at both the security and portfolio level, and (c) a market index as a performance benchmark.

INVESTMENT ACTIVITY - The state's investments are categorized below per GASB Statement No. 3 to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured, registered, or held by the state or its agent in the state's name. Category 2 includes uninsured and unregistered

investments that are held by the counterparties' trust departments or agents in the state's name. Category 3 includes uninsured and unregistered investments held by counterparties, or their trust departments or agents, but not in the state's name.

Investments at June 30, 2003, by investment type, are listed below (expressed in thousands):

Investment Type	Carrying Amount by GASB Categories			Carrying Amount	Fair Value
	1	2	3		
Corporate bonds	\$ 8,497,946	\$ 518	\$ -	\$ 8,498,464	\$ 8,498,464
Corporate stocks	2,414,857	610	-	2,415,467	2,415,467
U.S. government securities	1,961,217	-	-	1,961,217	1,961,205
Government securities	2,417,181	-	-	2,417,181	2,417,181
Collateralized mortgage obligations	3,335,845	-	-	3,335,845	3,335,844
Repurchase agreements	2,165,740	-	-	2,165,740	2,165,740
Asset backed securities	256,860	-	243,853	500,713	500,718
Commercial paper	2,547	-	-	2,547	2,547
Discount notes	4,196,343	-	-	4,196,343	4,196,343
Bankers' acceptances	5,055	-	-	5,055	5,055
Municipal bonds	19,908	-	-	19,908	19,930
Variable rate notes	-	-	2,417,517	2,417,517	2,417,517
Negotiable certificates of deposit	-	-	325,860	325,860	325,860
Other	2,460	-	-	2,460	2,460
	<u>\$ 25,275,959</u>	<u>\$ 1,128</u>	<u>\$ 2,987,230</u>	28,264,317	28,264,331
Mutual funds				4,413,054	4,413,054
Mortgages				1,560,565	1,560,565
Real estate				3,641,565	3,641,565
Private equity				5,902,436	5,902,436
Guaranteed investment contracts				544,107	544,107
Investments held by broker-dealers					
under securities lending programs:					
U.S. government securities				3,376,415	3,376,415
U.S. agency securities				465,823	465,823
Other investments				516,481	516,481
Commingled investment funds					
Foreign				3,402,501	3,402,501
Domestic				14,156,161	14,156,161
Other investment types				139,931	139,931
Total Investments				<u>\$ 66,383,356</u>	<u>\$ 66,383,370</u>

Note 4 - Receivables and Deferred Revenues

A. Governmental Funds

Taxes Receivable

Taxes receivable at June 30, 2003, consisted of the following (expressed in thousands):

Taxes Receivable	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor	Total
				Governmental Funds	
Property	\$ 788,866	\$ -	\$ -	\$ 728	\$ 789,594
Sales	1,228,327	-	-	22,659	1,250,986
Business and occupation	386,500	-	-	-	386,500
Estate	19,968	-	-	-	19,968
Fuel	-	-	-	967	967
Other	50,197	-	-	70,334	120,531
Subtotals	2,473,858	-	-	94,688	2,568,546
Less: Allowance for uncollectible receivables	94,614	-	-	125	94,739
Total Taxes Receivable	\$ 2,379,244	\$ -	\$ -	\$ 94,563	\$ 2,473,807

Other Receivables

Other receivables at June 30, 2003, consisted of the following (expressed in thousands):

Other Receivables	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor	Total
				Governmental Funds	
Public assistance	\$ 1,128,713	\$ -	\$ -	\$ -	\$ 1,128,713
Accounts receivable	13,922	87,615	783	56,482	158,802
Interest	-	8,027	8,272	4,195	20,494
Loans	14	121,228	-	222,423	343,665
Long-term contracts	5,377	-	9,316	114,866	129,559
Miscellaneous	9,637	69,595	8,049	12,514	99,795
Subtotals	1,157,663	286,465	26,420	410,480	1,881,028
Less: Allowance for uncollectible receivables	921,300	15,997	74	20,369	957,740
Total Other Receivables	\$ 236,363	\$ 270,468	\$ 26,346	\$ 390,111	\$ 923,288

Note: Public assistance receivables mainly represent amounts owed the state as a part of the Support Enforcement Program at the Department of Social and Health Services for the amounts due from persons required to pay support for individuals currently on state assistance, and have a low realization expectation. Accordingly, the receivable is offset by a large allowance for uncollectible receivables.

Deferred Revenues

Deferred revenues at June 30, 2003, consisted of the following (expressed in thousands):

Deferred Revenues	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor	Total
				Governmental Funds	
Property taxes	\$ 768,263	\$ -	\$ -	\$ -	\$ 768,263
Other taxes	336,087	-	-	19	336,106
Timber sales	5,377	-	9,316	110,336	125,029
Charges for services	7,735	44,273	-	13,310	65,318
Food stamps	54	-	-	-	54
Donable goods	4,734	-	-	-	4,734
Miscellaneous	38,657	101,712	19	343,239	483,627
Total Deferred Revenues	\$ 1,160,907	\$ 145,985	\$ 9,335	\$ 466,904	\$ 1,783,131

B. Proprietary Funds

Taxes Receivable

Taxes receivable at June 30, 2003, consisted of \$4.1 million in liquor taxes reported in Nonmajor Enterprise Funds.

Other Receivables

Other receivables at June 30, 2003, consisted of the following (expressed in thousands):

Other Receivables	Business-Type Activities			Total	Governmental
	Enterprise Funds				Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds		Internal Service Funds
Accounts receivable	\$ 65,454	\$ -	\$ 197,625	\$ 263,079	\$ 5,467
Interest	94,891	-	2,345	97,236	332
Loans	-	-	4	4	-
Miscellaneous	489,064	486,048	7,054	982,166	31
Subtotals	649,409	486,048	207,028	1,342,485	5,830
Less: Allowance for uncollectible receivables	50,526	80,931	56,770	188,227	187
Total Other Receivables	\$ 598,883	\$ 405,117	\$ 150,258	\$ 1,154,258	\$ 5,643

Deferred Revenues

Deferred revenues at June 30, 2003, consisted of the following (expressed in thousands):

	Business-Type Activities			Total	Governmental
	Enterprise Funds				Activities
	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds		Internal Service Funds
Deferred Revenues					
Charges for services	\$ -	\$ -	\$ 5,370	\$ 5,370	\$ 686
Miscellaneous	14,824	-	25,319	40,143	34
Total Deferred Revenues	\$ 14,824	\$ -	\$ 30,689	\$ 45,513	\$ 720

C. Fiduciary Funds

Other Receivables

Other receivables at June 30, 2003, consisted of the following (expressed in thousands):

Other Receivables	Local			
	Private-Purpose Trust	Government Investment Pool	Pension and Other Employee Benefit Plans	Agency Funds
Accounts receivable	\$ -	\$ -	\$ 2,851	\$ 9,632
Interest	34	4,516	111,180	7,465
Loans	60	-	-	17
Miscellaneous	4,272	-	26,673	33,295
Subtotals	4,366	4,516	140,704	50,409
Less: Allowance for uncollectible receivables	45	-	129	340
Total Other Receivables	\$ 4,321	\$ 4,516	\$ 140,575	\$ 50,069

Deferred Revenues

Deferred revenues recorded in Private-Purpose Trust funds at June 30, 2003, consisted of \$564 thousand related to charges for services and \$1.3 million related to other miscellaneous revenues.

Note 5 - Interfund Balances and Transfers

A. Interfund Balances

The following balances at June 30, 2003, represent due from and due to balances among all funds and state agencies (expressed in thousands):

Due To	Due From									Totals
	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation	Unemployment Compensation	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	
General	\$ 83,762	\$ 8,151	\$ -	\$ 95,824	\$ 47	\$ 1	\$ 986	\$ 460	\$ 14,181	\$ 203,412
Higher Educ. Special Revenue	28,836	19,088	-	9,442	169	-	43,923	4,653	23,886	129,997
Higher Education Endowment	-	-	-	-	-	-	-	-	194	194
Nonmajor Governmental Funds	142,611	5,269	2,223	78,178	159	-	11,877	1,382	17,795	259,494
Workers' Compensation	140	5	-	22	2,006	-	-	78	153	2,404
Unemployment Compensation	2,248	1,580	-	758	-	-	-	-	251	4,837
Nonmajor Enterprise Funds	9,811	2,736	-	1,146	-	-	42,072	238	5,359	61,362
Internal Service Funds	15,641	807	-	17,480	4,360	-	12,635	9,351	617	60,891
Fiduciary Funds	319,552	2,578	172,644	14,774	-	-	9,131	1,378	272,539	792,596
Totals	\$ 602,601	\$ 40,214	\$ 174,867	\$ 217,624	\$ 6,741	\$ 1	\$ 120,624	\$ 17,540	\$ 334,975	\$ 1,515,187

All interfund balances are expected to be paid within one year from the date of the financial statements. These balances resulted from the time lag between the dates

that (1) interfund goods and services were provided and when the payments occurred, and (2) interfund transfers were accrued and when the liquidations occurred.

B. Interfund Transfers

Interfund transfers as reported in the financial statements reflect transfers between agencies and accounts reported within the same fund.

Net transfers between funds for the year ended June 30, 2003, consisted of the following (expressed in thousands):

Transferred From	Transferred To								Total
	General Fund	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Workers' Compensation Fund	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Funds	
General Fund	\$ 2	\$ 7,887	\$ -	\$ 708,249	\$ -	\$ -	\$ 9,592	\$ 2,232	\$ 727,962
Higher Educ. Special Revenue	-	64,120	50	136,776	-	19,672	2,375	17,939	240,932
Higher Education Endowment	-	56,564	11	29,510	-	7	-	2,515	88,607
Nonmajor Governmental Funds	508,638	16,495	1,456	547,419	-	14,802	-	5	1,088,815
Workers' Compensation Fund	-	-	-	5,490	329,126	-	-	-	334,616
Nonmajor Enterprise Funds	42,601	26,166	-	578,901	-	125,013	52	16,287	789,020
Internal Service Funds	-	2,792	-	2,892	-	20	421,911	-	427,615
Private Purpose Funds	36,749	2,203	171	-	-	16,254	2	6,966	62,345
Total	\$ 587,990	\$ 176,227	\$ 1,688	\$ 2,009,237	\$ 329,126	\$ 175,768	\$ 433,932	\$ 45,944	\$ 3,759,912

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts designated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, 3) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Liquor

Revolving Account and the State Lottery Account as required by law, and 5) transfer amounts to and from the General Fund as required by law.

In the Fiscal Year ended June 30, 2003, the state recorded a transfer of \$450 million from the Tobacco Settlement Authority to the General Fund to provide funds for increased costs of health care, long-term care, and other state programs.

Note 6 - Capital Assets

A. Governmental Capital Assets

The following is a summary of governmental capital asset activity for the year ended June 30, 2003 (expressed in thousands):

Capital Assets	Balances July 1, 2002*	Additions	Deletions	Balances June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 1,088,525	72,171	(27,635)	\$ 1,133,061
Highway System Infrastructure**	11,099,869	630,786	-	11,730,655
Construction in Progress	1,142,984	346,037	(325,653)	1,163,368
Art Collections, Library Reserves, and Museum and Historical Collections	74,570	66,352	(32,950)	107,972
Total capital assets, not being depreciated	13,405,948			14,135,056
Capital assets, being depreciated:				
Buildings	5,583,445	687,778	(216,092)	6,055,131
Accumulated depreciation	(1,866,806)	(162,755)	9,912	(2,019,649)
Net buildings	3,716,639			4,035,482
Furnishings, equipment, and collections	2,799,713	301,136	(124,033)	2,976,816
Accumulated depreciation	(1,549,763)	(168,398)	28,230	(1,689,931)
Net furnishings, equipment and collections	1,249,950			1,286,885
Other improvements and miscellaneous	664,604	108,362	(36,562)	736,404
Accumulated depreciation	(247,223)	(53,633)	24,731	(276,125)
Net other improvements and miscellaneous	417,381			460,279
Infrastructure (other)**	244,137	146,716	(107,809)	283,044
Accumulated depreciation	(73,160)	(28,756)	10,847	(91,069)
Net infrastructure (other)	170,977			191,975
Total capital assets, being depreciated, net	5,554,947			5,974,621
Governmental activities capital assets, net	\$ 18,960,895			\$ 20,109,677

*Beginning balances have been restated to reflect fund type reclassifications.

**The state first reported infrastructure under the new requirements of the Governmental Accounting Standards Board Statement Number 34 in Fiscal Year 2002. The state accounts for the State Highway System and Emergency Airfields using the modified approach and reports them as non-depreciable Highway System Infrastructure. The state's short rail line is depreciated and is reported as depreciable Infrastructure (other). Under the modified approach, rather than recording depreciation, asset condition is reported. The rating scales for pavements, bridges, and airfields are further explained in Required Supplementary Information.

B. Business-type Capital Assets

The following is a summary of business-type capital asset activity for the year ended June 30, 2003, (expressed in thousands):

Capital Assets	Balances July 1, 2002	Additions	Deletions	Balances June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 24,219	59,339	-	\$ 83,558
Art Collections and Library Reserves	35	-	-	35
Construction in Progress	300,708	199,249	(261,833)	238,124
Total capital assets, not being depreciated	324,962			321,717
Capital assets, being depreciated:				
Buildings	1,031,391	282,352	(96,644)	1,217,099
Accumulated depreciation	(369,577)	(19,643)	39	(389,181)
Net buildings	661,814			827,918
Furnishings, equipment, and collections	285,560	32,922	(31,304)	287,178
Accumulated depreciation	(200,715)	(21,860)	23,895	(198,680)
Net furnishings, equipment, and collections	84,845			88,498
Other Improvements and miscellaneous	36,661	2,158	(5,246)	33,573
Accumulated depreciation	(11,172)	(1,847)	894	(12,125)
Net other improvements and miscellaneous	25,489			21,448
Infrastructure (other)	24,220	4,352	-	28,572
Accumulated depreciation	(6,628)	(1,440)	-	(8,068)
Net infrastructure (other)	17,592			20,504
Total capital assets, being depreciated, net	789,740			958,368
Business-type activities capital assets, net	\$ 1,114,702			\$ 1,280,085

C. Depreciation

Depreciation expense was charged to functions of the primary government as follows (in thousands):

	Amount
Governmental Activities:	
General Government	\$ 44,686
Education - Elementary and Secondary (K-12)	1,719
Education - Higher Education	250,462
Human Services	33,553
Adult Corrections	23,548
Natural Resources and Recreation	31,211
Transportation	73,360
Total Depreciation Expense - Governmental Activities	<u>\$ 458,539</u> *
Business-Type Activities:	
Workers' Compensation	\$ 442
Unemployment Compensation	-
Health Insurance Programs	191
Higher Education Student Services	36,335
Other	7,822
Total Depreciation Expense - Business-Type Activities	<u>\$ 44,790</u>

*Includes \$58,730 million internal service fund depreciation that was allocated to functions as a part of the net internal service fund activity.

D. Construction in Progress

Major construction commitments of the state at June 30, 2003, are as follows (expressed in thousands):

Agency/Project Commitments	Construction In Progress June 30, 2003	Remaining Project Commitments
Department of General Administration:		
Various projects	\$ 128,300	\$ 259,970
Liquor Control Board:		
Distribution Center	30,367	155
Washington State Patrol:		
Seattle and Vancouver crime laboratories	940	21,365
Military Department:		
Readiness centers and other projects	24,063	14,437
Department of Social and Health Services:		
State hospital and juvenile rehabilitation renovations, and other projects	73,443	33,340
Department of Veterans Affairs:		
240 Bed Skilled Nursing Center and other projects	4,015	44,001
Department of Corrections:		
Correctional centers construction, improvements, and other projects	221,112	353,139
Eastern Washington State Historical Society		
Museum addition	23,109	2,000
Department of Transportation:		
State Highway System, maintenance facilities, ferry vessels, and terminals	173,672	736,868
Department of Fish and Wildlife:		
Hatchery renovations, site improvements, and other projects	3,671	8,167
Higher Education Facilities:		
University of Washington	443,833	297,674
Washington State University	47,294	133,418
Eastern Washington University	5,438	23,731
Central Washington University	42,857	13,696
The Evergreen State College	25,459	18,178
Western Washington University	64,772	33,280
Community and Technical Colleges	85,142	187,879
Other Agencies Miscellaneous Projects	4,004	10,189
Total Construction in Progress	\$ 1,401,491	\$ 2,191,487

Note 7 – Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2003, are reported by the state of Washington within Governmental Activities and Business-Type Activities, as applicable.

The State Constitution and enabling statutes authorize the incurrence of state general obligation debt, to which the state's full faith, credit, and taxing power are pledged, either by the State Legislature or by a body designated by statute (presently the State Finance Committee). Legislative authorization arises from an affirmative vote of 60 percent of both legislative houses without voter consent, or from an affirmative vote of more than 50 percent of both legislative houses and a majority of the voters voting thereon. The State Finance Committee debt authorization does not require voter approval; however, it is limited to providing for: (1) temporary deficiencies in the state treasury (must be discharged within 12 months of the date of incurrence); (2) appropriations already made by the legislature; or (3) refunding of outstanding obligations of the state.

Legal Debt Limitation

The State Constitution and current statutes generally limit debt authorized in the preceding procedures. The limitations prohibit the issuance of new debt if it would cause the maximum annual debt service, on all thereafter-outstanding general obligation debt, to exceed a specified percentage of the arithmetic mean of general state revenues for the preceding three fiscal years. These limitations are on the incurrence of new debt, not on the amount of debt service that may be paid by the state in future years.

As certified by the State Treasurer, the maximum debt authorization subject to limitation for Fiscal Year 2003 was \$6.5 billion, under the then current constitutional and statutory limitation. This computation excludes specific bond issues and types, which are not secured by general state revenues. Based on the debt limitation calculation, the debt service requirements as of June 30, 2003, did not exceed the authorized debt service limitation.

Computation of Legal Debt Limitation (expressed in millions)¹	
Three year mean, general state revenues	\$ 8,886
Legal Debt Limitation:	
Debt service limitation (7 percent of above)	\$ 622
Less: Projected maximum annual debt service of outstanding bonds	560
Uncommitted Portion of Debt Service Limitation	<u>\$ 62</u>
Remaining State general obligation debt capacity	\$ 846
Plus: Debt outstanding subject to limitation	5,622
Maximum Debt Authorization Subject to Limitation	<u>\$ 6,468</u>

¹ Source: Office of the State Treasurer – Certification of the Debt Limitation of the State of Washington for Fiscal Year 2003.

Authorized but unissued

The state had a total of \$3,548 million in bonds authorized but unissued as of June 30, 2003, for the purpose of public building and schools construction and renovation, higher education purposes, and highways construction and improvement.

Interest rates

Interest rates on fixed rate general obligation bonds ranged from 2.0 to 9.0 percent. Variable rate demand obligations (VRDO) of \$185.2 million as of June 30, 2003, are remarketed on a weekly basis. Interest rates on revenue bonds range from 3.0 to 9.0 percent.

DEBT SERVICE REQUIREMENTS TO MATURITY

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and

construction of capital facilities for public and common schools, higher education, public and mental health, corrections, conservation, and construction and improvements of highways, roads, and bridges. The state has also issued bonds for assistance to municipalities for construction of water and sewage treatment facilities and corrections facilities. In addition, bonds are authorized and issued to provide for the refunding of general obligation bonds outstanding. Outstanding general obligations bonds are presented in the Washington State Treasurer's Annual Report for 2003. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington, 98504-0200, phone number (360) 902-9000 or TTY (360) 902-8963.

Total debt service requirements to maturity for general obligation bonds, as of June 30, 2003, are as follows (expressed in thousands):

General Obligation Bonds	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2004	\$ 380,235	\$ 425,385	\$ 16,964	\$ 7,374	\$ 397,199	\$ 432,759
2005	391,248	408,816	16,841	6,443	408,089	415,259
2006	394,279	386,374	17,836	5,498	412,115	391,872
2007	407,073	371,150	19,027	4,510	426,100	375,660
2008	413,744	348,768	20,529	3,395	434,273	352,163
2009-2013	1,936,823	1,460,373	43,473	20,973	1,980,296	1,481,346
2014-2018	2,091,884	1,037,827	28,614	33,932	2,120,498	1,071,759
2019-2023	1,597,389	568,563	9,114	23,411	1,606,503	591,974
2024-2028	748,330	184,277	-	-	748,330	184,277
2029-2033	15,562	48,289	-	-	15,562	48,289
Total Debt Service Requirements	\$ 8,376,567	\$ 5,239,822	\$ 172,398	\$ 105,536	\$ 8,548,965	\$ 5,345,358

Revenue Bonds are authorized under current state statutes, which empower certain state agencies to issue bonds that are not supported, or not intended to be supported, by the full faith and credit of the state. These bonds pledge income derived from acquired or constructed assets for retirement of the debt and payment of the related interest.

The State's Colleges and Universities issue revenue bonds for the purposes of housing, dining, parking, and student facilities construction. Additionally, the Tobacco Settlement Authority (TSA), a blended component unit of the state, also issued revenue bonds secured by the TSA's right to receive 29.2 percent of the state's tobacco settlement revenue stream.

Total debt service requirements for revenue bonds to maturity as of June 30, 2003, are as follows (expressed in thousands):

Revenue Bonds	Business-Type Activities	
	Principal	Interest
By Fiscal Year:		
2004	\$ 9,668	\$ 49,844
2005	11,202	49,481
2006	10,663	49,011
2007	11,100	48,520
2008	22,098	48,034
2009-2013	127,869	222,817
2014-2018	153,407	182,323
2019-2023	164,521	135,586
2024-2028	189,277	83,586
2029-2033	148,847	22,352
Total Debt Service Requirements	\$ 848,652	\$ 891,554

DEBT REFUNDINGS

When advantageous and permitted by statute and bond covenants, the State Finance Committee authorizes the refunding of outstanding bonds. When the state refunds outstanding bonds, the net proceeds of each refunding issue are used to purchase U.S. government securities that are placed in irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide statement of net assets.

CURRENT YEAR DEFEASANCES

Governmental Activities:

On October 2, 2002, the state issued \$605.9 million of Various Purpose General Obligation Refunding Bonds (Series R-2003A) with an average interest rate of 4.72 percent to refund \$597.4 million of Various Purpose General Obligation Bonds from several different series with an average interest rate of 5.76 percent. The refunding resulted in a \$72 million gross debt service savings over the next nineteen years and an economic gain of \$50.7 million.

On December 4, 2002, the state issued \$70.3 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds (Series R-2003B) with an average interest rate of 4.92 percent to refund \$68.4 million of Motor Vehicle Fuel Tax General Obligation bonds from several series with an average interest rate of 5.90 percent. The refunding resulted in a \$7 million gross debt service savings over the next seventeen years and an economic gain of \$4.7 million.

On May 27, 2003, the state issued \$77 million of Various Purpose General Obligation Refunding Bonds (Series R-2003C) with an average interest rate of 3.82 percent to refund \$75.5 million of Various Purpose General Obligation Bonds from several series with an average interest rate of 5.77 percent. The refunding resulted in a \$6.9 million gross debt service savings over the next ten years and an economic gain of \$6.5 million.

On June 4, 2003, the state issued \$25.7 million of Refunding Certificates of Participation (Series RE-

2003B) with an average interest rate of 4.5 percent to refund the remaining \$27.8 million of the 1991 Department of Ecology State Office Building Project, with an average interest rate of 5.0 percent. The refunding resulted in a \$5 million gross debt service savings over the next thirteen years and an economic gain of \$3.3 million.

Business-Type Activities:

On August 6, 2002, Eastern Washington University issued \$4.5 million in Housing and Dining System Revenue and Refunding Bonds (Series 2002), with an average interest rate of 3.39 percent, to refund \$4.3 million in outstanding Housing and Dining System Revenue Bonds with an average interest rate of 6.20 percent. The refunding resulted in \$604,048 gross debt service savings over the next ten years and an economic gain of \$716,511.

On May 8, 2003, Western Washington University issued \$15.1 million of Revenue and Refunding Bonds (Series 2003), with an average interest rate of 3.52 percent, to refund \$3 million in outstanding Revenue Bonds (1991 and 1992 issues) with an average interest rate of 6.25 and 5.95 percent respectively, and to issue \$12 million of new bonds to fund housing renovations. The refunding of the bonds resulted in a \$390,000 gross debt service savings over the next 20 years and an economic loss of \$166,988.

PRIOR YEAR DEFEASANCES

In prior years, the state defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the prior bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements.

General Obligation Bond Debt:

On June 30, 2003, \$48.5 million of general obligation bonded debt outstanding is considered defeased.

Revenue Bond Debt:

On June 30, 2003, \$77.2 million of proprietary revenue bonded debt outstanding is considered defeased.

B. Certificates of Participation

Current state law authorizes the state to enter into long-term financing contracts for the acquisition of real or personal property and for the issuance of certificates of participation in the contracts. These certificates of participation do not fall under the general obligation debt

limitations and are generally payable only from annual appropriations by the Legislature. Other specific provisions could also affect the state's obligation under certain agreements. The certificates of participation are recorded for financial reporting purposes if the possibility of the state not meeting the terms of the agreements is considered remote.

Total debt service requirements for certificates of participation to maturity as of June 30, 2003, are as follows (expressed in thousands):

Certificates of Participation	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
By Fiscal Year:						
2004	\$ 29,637	\$ 16,651	\$ 23,792	\$ 14,760	\$ 53,429	\$ 31,411
2005	19,389	11,574	15,908	10,581	35,297	22,155
2006	17,084	10,761	14,247	9,906	31,331	20,667
2007	15,727	10,051	13,576	9,303	29,303	19,354
2008	14,807	9,375	13,071	8,713	27,878	18,088
2009-2013	88,435	35,309	81,230	33,046	169,665	68,355
2014-2019	75,843	12,706	71,319	11,955	147,162	24,661
2019-2023	15,226	1,749	14,328	1,646	29,554	3,395
2024-2028	124	6	121	5	245	11
Total Debt Service Requirements	\$ 276,272	\$ 108,182	\$ 247,592	\$ 99,915	\$ 523,864	\$ 208,097

Note: An additional \$5 million certificates of participation, related to fiduciary activities, remain outstanding as of June 30, 2003.

C. Claims and Judgments

Claims and judgments are materially related to three activities: workers' compensation, risk management, and health insurance. Workers' compensation and health insurance are business-type activities, and risk management is a governmental activity. A description of the risks to which the state is exposed by these activities,

and the ways in which the state handles the risks, is presented in Note 1L.

Workers' Compensation

Changes in the balances of workers' compensation claims liabilities during Fiscal Years 2002 and 2003 were as follows (expressed in thousands):

	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
Workers' Compensation Fund				
FY 2002	\$ 14,243,113	2,045,466	(1,405,480)	\$ 14,883,099
FY 2003	\$ 14,883,099	2,489,547	(1,508,794)	\$ 15,863,852

At June 30, 2003, \$33.7 billion of unpaid claims and claim adjustment expenses are presented at their net present value of \$15.9 billion. These claims are discounted at assumed interest rates of 4.0 percent (time loss and medical) to 6.5 percent (pensions) and are net of third party recoveries.

basis, and the Workers' Compensation actuaries have indicated that future premium payments will be sufficient to pay these claims as they come due. The remaining claims liabilities of \$8.0 billion are fully funded by long-term investments, net of obligations under securities lending agreements.

The claims and claim adjustment liabilities of \$15.9 billion, as of June 30, 2003, include \$7.9 billion for supplemental pension cost of living adjustments (COLAs) that by statute are not to be fully funded. These COLA payments are funded on a pay-as-you-go

Risk Management

Changes in the balances of risk management claims liabilities during Fiscal Years 2002 and 2003 were as follows (expressed in thousands):

	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Tort Defense Payments	Balances End of Fiscal Year
Risk Management Fund					
FY 2002	\$ 268,737	189,909	(33,638)	(22,538)	\$ 402,470
FY 2003	\$ 402,470	153,250	(40,082)	(16,724)	\$ 498,914

Risk Management reports claims and judgment liabilities when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. It also includes an actuarial estimate of loss adjustment expenses for tort defense. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, it should be recognized that future loss emergence will likely deviate, perhaps materially, from the actuarial estimates. Claims liabilities are re-evaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic or social factors.

The state is a defendant in a significant number of lawsuits pertaining to property and casualty matters. As of June 30, 2003, outstanding and actuarially determined claims against the state and its public authorities were \$498.9 million for which the state has recorded a liability. The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims. At June 30, 2003, the Risk Management Fund held \$14.3 million in cash and pooled investments designated for payment of these claims under the state's Self Insurance Liability Program.

Health Insurance

Changes in the balances of Health Insurance claim liabilities during Fiscal Years 2002 and 2003 were as follows (expressed in thousands):

Health Insurance Fund	Balances Beginning of Fiscal Year	Incurred Claims and Changes in Estimates	Claim Payments	Balances End of Fiscal Year
FY 2002	\$ 43,147	297,836	(294,057)	\$ 46,926
FY 2003	\$ 46,926	332,047	(331,039)	\$ 47,934

The Health Insurance Fund establishes a liability when it becomes probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an actuarially determined amount for claims that have been incurred but not reported. Because actual claims liabilities depend on various complex factors, the process used in computing claims liabilities does not always result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

At June 30, 2003, health insurance claims liabilities totaling \$47.9 million are fully funded with cash and investments, net of obligations under securities lending agreements.

D. Leases

The state leases land, office facilities, office and computer equipment, and other assets under a variety of agreements. Although lease terms vary, most leases are subject to appropriation from the state Legislature to continue the obligation. If the possibility of receiving no funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Leases that represent acquisitions are classified as capital leases, and the related assets and liabilities are recorded in the financial records at the inception of the lease. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

Leased land, buildings and equipment under capital leases as of June 30, 2003, include the following (expressed in thousands):

	Governmental Activities	Business-Type Activities
Land (non-depreciable)	\$ 3,368	\$ -
Buildings	50,697	\$ 6,182
Equipment	23,933	946
Less: Accumulated Depreciation	(21,825)	(771)
Totals	\$ 56,173	\$ 6,357

The following schedule presents future minimum payments for capital and operating leases as of June 30, 2003, (expressed in thousands):

	Capital Leases		Operating Leases	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Capital and Operating Leases				
By Fiscal Year:				
2004	\$ 6,794	\$ 710	\$ 93,056	\$ 22,215
2005	6,716	690	80,938	21,062
2006	6,460	649	68,493	19,239
2007	5,170	625	53,578	18,529
2008	4,334	615	38,679	17,234
2009-2013	7,479	2,261	159,318	5,578
2014-2018	574	2,175	68,084	-
2019-2023	348	1,663	46,312	-
2024-2028	-	-	46,848	-
2029-2033	-	-	45,372	-
Total Future Minimum Payments	37,875	9,388	700,678	103,857
Less: Executory costs and interest costs	6,331	3,506	-	-
Net Present Value of future minimum lease payments	\$ 31,544	\$ 5,882	\$ 700,678	\$ 103,857

The total operating lease rental expense for Fiscal Year 2003 was \$129.7 million.

E. Long-Term Liability Activity

Long-term liability activity for the Fiscal Year 2003 (expressed in thousands) was as follows:

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Amounts Due Within One Year
Governmental Activities:					
Long-term Debt:					
Bonds Payable -					
General obligation (GO) bonds	\$7,750,915	\$1,295,645	\$1,134,335	\$7,912,225	\$366,825
GO - zero coupon bonds (principal)	246,254	233,002	14,914	464,342	13,410
Subtotal	7,997,169	1,528,647	1,149,249	8,376,567	380,235
GO - zero coupon bonds (accrued interest)	152,105	17,948	17,450	152,603	-
Total bonds payable	8,149,274	1,546,595	1,166,699	8,529,170	380,235
Other liabilities -					
Certificates of participation	248,657	32,127	4,512	276,272	29,637
Claims and judgments	471,383	547,623	425,452	593,554	122,324
Leases	35,055	7,040	10,551	31,544	6,794
Compensated absences	392,041	286,654	280,159	398,536	35,441
Unfunded pension obligations	44,700	5,200	-	49,900	-
Other	150,642	458,983	419,046	190,579	145,166
Total other liabilities	1,342,478	1,337,627	1,139,720	1,540,385	339,362
Total	\$9,491,752	\$2,884,222	\$2,306,419	\$10,069,555	\$719,597

For Governmental Activities, payments on the certificates of participation are being repaid directly from various governmental funds. The compensated absences liability will be liquidated approximately 53 percent by the General Fund, 24 percent by the Higher Education Special Revenue Funds, and the balance by various other

governmental funds. The claims and judgments liability will be liquidated primarily through the risk management fund, an internal service fund. Leases, installment contract obligations, and other liabilities will be repaid from various other governmental funds.

State of Washington

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Amounts Due Within One Year
Business-Type Activities					
Long-term Debt:					
Bonds Payable -					
General obligation (GO) bonds	\$ 157,845	\$ 261	\$ 14,967	\$ 143,139	\$ 16,964
GO - zero coupon bonds (principal)	29,259	-	-	29,259	-
Limited revenue bonds	-	517,905	-	517,905	-
Revenue bonds	327,512	19,281	16,046	330,747	9,668
Less: Deferred amounts on refunding	(3,328)	(331)	56	(3,603)	-
Subtotal	511,288	537,116	30,957	1,017,447	26,632
GO - zero coupon bonds (accreted interest)	15,048	2,795	-	17,843	-
Less: Deferred amounts for issuance discounts	(1,771)	(14,203)	522	(15,452)	-
Subtotal	13,277	(11,408)	522	2,391	-
Total bonds payable	524,565	525,708	30,435	1,019,838	26,632
Other liabilities -					
Certificates of participation	235,905	135,084	123,397	247,592	23,792
Less: Deferred amounts for issuance discounts	(2,624)	1	571	(2,052)	-
Claims and judgments	14,933,093	2,824,973	1,842,730	15,915,336	1,533,558
Lottery prize annuities payable	542,496	134,093	147,435	529,154	70,046
Tuition benefits payable	207,900	154,509	12,409	350,000	15,300
Leases	1,758	4,532	408	5,882	710
Compensated absences	35,777	23,754	22,348	37,183	19,740
Other	24,475	51,520	39,244	36,749	35,998
Total other liabilities	15,978,780	3,328,466	2,187,400	17,119,844	1,699,144
Total	\$16,503,345	\$3,854,174	\$2,217,835	\$18,139,682	\$1,725,776

The limited revenue bonds were issued by the Tobacco Settlement Authority (TSA), which is a blended component unit of the state. The bonds are obligations of the TSA and are secured solely by the TSA's right to receive 29.2 percent of the state's tobacco settlement

revenues, restricted investments of the TSA, and undistributed TSA bond proceeds. These bonds do not constitute either a legal or moral obligation of the state, nor does the state pledge its full faith, credit or taxing power for payment of these bonds.

Note 8 - No Commitment Debt

The Washington State Housing Finance Commission, Washington Higher Education Facilities Authority, Washington Health Care Facilities Authority, and Washington Economic Development Finance Authority (financing authorities) were created by the state Legislature. For financial reporting purposes, they are discretely presented as component units. These financing authorities issue bonds for the purpose of making loans to qualified borrowers for capital acquisitions, construction, and related improvements.

These bonds do not constitute either a legal or moral obligation of the state or these financing authorities, nor does the state or these financing authorities pledge their faith and credit for the payment of such bonds. Debt service on the bonds is payable solely from payments made by the borrowers pursuant to loan agreements. Due to their no commitment nature, the bonds issued by these financing authorities are excluded from the state's financial statements.

The table below presents the latest available balances for the "No Commitment" debt of the state's financing authorities (expressed in thousands):

No Commitment Debt	Principal Balance
Washington State Housing Finance Commission	\$ 2,060,740
Washington Higher Education Facilities Authority	332,317
Washington Health Care Facilities Authority	2,700,000
Washington Economic Development Finance Authority	292,621
Total No Commitment Debt	\$ 5,385,678

Note 9 – Fund Balances Reserved or Designated for Other Specific Purposes

The nature and purposes of fund balances reserves and designations for other specific purposes as of June 30, 2003, are listed below (expressed in thousands):

Fund Balances	General	Higher Education Special Revenue	Higher Education Endowment	Nonmajor Governmental Funds	Totals
Reserved for Other Specific Purposes:					
Long-term student loans	\$ -	\$ 92,035	\$ -	\$ -	\$ 92,035
Investments with trustees	599	-	-	451	1,050
Long-term receivables	32,780	641	-	1,069,175	1,102,596
Long-term investments	-	121,191	-	29,286	150,477
Emergency reserve	-	-	-	57,631	57,631
Petty cash	611	3,693	-	824	5,128
Total Reserved for Other Specific Purposes	\$ 33,990	\$ 217,560	\$ -	\$ 1,157,367	\$ 1,408,917
Unreserved, Designated for Other Specific Purposes:					
Higher education	\$ -	\$ 155,679	\$ -	\$ -	\$ 155,679
Miscellaneous	-	-	-	168	168
Total Unreserved, Designated for Other Specific Purposes	\$ -	\$ 155,679	\$ -	\$ 168	\$ 155,847

Note 10 - Deficit Net Assets

At June 30, 2003, there were three proprietary funds with deficit net assets.

The Workers' Compensation Fund, an enterprise fund, had deficit net assets of \$6.2 billion at June 30, 2003. The fund is used to account for the workers' compensation program, which provides time-loss, medical, disability, and pension payments to qualifying individuals sustaining work-related injuries. The main

benefit plans of the workers' compensation program are funded based on rates that will keep these plans solvent in accordance with recognized actuarial principles. The supplemental pension cost-of-living adjustments (COLA) granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. By statute, the state is only allowed to collect enough revenue to fund the current COLA payments.

The following schedule details the changes in total net assets for the Workers' Compensation Fund during the fiscal year ended June 30, 2003, (expressed in thousands):

	Net Assets (Deficit)
Workers' Compensation Fund	
Balances, July 1, 2002	\$ (6,064,485)
Fiscal Year 2003 activity	(181,528)
Balances, June 30, 2003	\$ (6,246,013)

The Risk Management Fund, an internal service fund, had deficit net assets of \$ 484.3 million at June 30, 2003. The Risk Management Fund is used to account for the claims, torts, judgments generally arising from automobile and general government operations, and loss adjustment expenses for tort defense. These costs are supported by premium assessments to state agencies that are designed to cover current and future claim losses. Outstanding and incurred but not reported claims are actuarially determined and accrued, resulting in the deficit net assets.

The Self Insurance Liability Program initiated in 1990 is intended to provide funds for the payment of all claims and loss adjustment expenses for tort defense.

The state is restricted by law from accumulating funds in the Self Insurance Liability Program in excess of 50 percent of total outstanding and actuarially determined claims.

The following schedule details the changes in net assets for the Risk Management Fund during the fiscal year ended June 30, 2003, (expressed in thousands):

	Net Assets (Deficit)
Risk Management Fund	
Balance, July 1, 2002	\$ (395,216)
Fiscal Year 2003 activity	(89,097)
Balance, June 30, 2003	\$ (484,313)

The Other Activities Fund, an enterprise fund, had deficit net assets of \$ 415.0 million at June 30, 2003. The Other Activities Fund is used to account for various enterprise activities of the state including the blended enterprise component unit, the Tobacco Settlement Authority (TSA). In Fiscal Year 2003, the TSA issued \$517 million in bonds and transferred \$450 million to the state

in exchange for 29.2 percent of the state's tobacco settlement revenue stream. This revenue stream represents a contingent asset and, in accordance with accounting standards, cannot be recognized until the contingency no longer exists. As a result, the TSA reflects deficit net assets as of June 30, 2003, of \$441 million.

The following schedule details the changes in net assets for the Other Activities Fund during the fiscal year ended June 30, 2003, (expressed in thousands):

Other Activities Fund	Net Assets (Deficit)
Balances, July 1, 2002	\$ 13,091
Fiscal Year 2003 activity	(428,072)
Balances, June 30, 2003	\$ (414,981)

Note 11 - Retirement Plans

A. General

The state of Washington, through the Department of Retirement Systems, the Board for Volunteer Fire Fighters, and the Administrator for the Courts, administers 12 defined benefit retirement plans, three combination defined benefit/defined contribution retirement plans, and one defined contribution retirement plan covering eligible employees of the state and local governments. Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan.

DEPARTMENT OF RETIREMENT SYSTEMS

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers seven retirement systems comprising 11 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

- Public Employees' Retirement System (PERS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution
- Teachers' Retirement System (TRS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution
- School Employees' Retirement System (SERS)
 - Plan 2 - defined benefit
 - Plan 3 - defined benefit/defined contribution
- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
- Washington State Patrol Retirement System (WSPRS)
 - Plan 1 - defined benefit
 - Plan 2 - defined benefit
- Judicial Retirement System (JRS)
 - Defined benefit plan
- Judges' Retirement Fund (Judges)
 - Defined benefit plan

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS, TRS, SERS, and LEOFF systems and plans was funded by an employer rate of .22 percent of employee salaries. Administration of the WSPRS, JRS, and Judges plans is funded by means of legislative appropriations.

The Department of Retirement Systems prepares a stand-alone financial report. Copies of the report that include financial statements and required supplemental information may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

BOARD FOR VOLUNTEER FIRE FIGHTERS

As established in chapter 41.24 RCW, the Washington Board for Volunteer Fire Fighters' administers the Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF), a defined benefit plan. Administration of VFFRPF is funded through legislative appropriation.

ADMINISTRATOR FOR THE COURTS

As established in chapter 2.14 RCW, the Administrator for the Courts administers the Judicial Retirement Account (JRA), a defined contribution plan. Administration of JRA is funded through member fees.

In addition to the retirement plans administered by the state of Washington, eligible higher education state employees may participate in the Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) which is a privately administered defined contribution plan.

Plan descriptions, funding policies, and a table of employer contributions required and paid for defined benefit plans follow at Notes 11.B through D respectively. For information related to defined contribution plans, refer to Note 11.I. Details on plan net assets and changes in plan net assets of pension plans administered by the state are presented at Note 11.J.

Membership of each state administered plan consisted of the following at September 30, 2002, the date of the latest actuarial valuation for all plans except for VFFRPF which had an actuarial valuation performed on December 31, 2002.

Defined Benefit Plans Administered by the State	Retirees and Beneficiaries Receiving Benefits	Terminated Plan Members Entitled to but not yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS 1	54,006	3,280	20,167	1,570	79,023
PERS 2	9,741	15,674	68,372	48,567	142,354
PERS 3	9	198	10,455	5,054	15,716
TRS 1	33,148	1,822	12,096	360	47,426
TRS 2	823	2,487	7,005	804	11,119
TRS 3	283	2,151	17,154	28,644	48,232
SERS 2	437	1,397	13,535	9,335	24,704
SERS 3	185	1,148	12,025	14,896	28,254
LEOFF 1	7,987	22	1,146	1	9,156
LEOFF 2	244	376	10,076	3,935	14,631
WSPRS 1	718	95	780	255	1,848
JRS	131	3	24	-	158
Judges	18	-	1	-	19
JRA	3	10	184	-	197
VFFRPF	2,854	4,389	4,944	6,959	19,146

Following is a summary of government employers participating in state administered retirement plans as of June 30, 2003.

Plan	State Agencies	Public Schools	Counties/ Municipalities	Other Political Subdivisions
PERS 1	156	253	209	252
PERS 2	168	-	269	440
PERS 3	141	-	159	204
TRS 1	86	284	-	-
TRS 2	38	270	-	-
TRS 3	44	291	-	-
SERS 2	9	290	-	-
SERS 3	10	288	-	-
LEOFF 1	-	-	104	25
LEOFF 2	7	-	224	128
WSPRS 1	1	-	-	-
WSPRS 2	1	-	-	-
JRS	3	-	-	-
Judges	-	-	-	-
JRA	3	-	-	-
VFFRPF	-	-	-	520

B. Plan Description

Public Employees' Retirement System (PERS)

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2003, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment. PERS Plan 3 defined contribution benefits are financed from

employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. TIAA/CREF is not administered by DRS. Approximately 52 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan

2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of membership service is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. There were no other material changes in PERS benefit provisions for the fiscal year ended June 30, 2003.

PERS pension benefit provisions have been established by chapter 41.40 RCW.

PERS is comprised of three separate plans for reporting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

Teachers' Retirement System (TRS)

TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2003, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. TRS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public schools. TRS is comprised principally of non-state employees. TRS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996, and transferred to Plan 3. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. Refer to section I of this note for a description of the defined contribution component of TRS Plan 3.

TRS Plan 1 provides death and duty disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-\$400 (if at least 10 years of membership service), active members-\$600. Members on temporary disability receive a temporary life annuity of \$180 per month payable up to

two years. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. There were no other material changes in TRS benefit provisions for the fiscal year ended June 30, 2003.

TRS pension benefit provisions have been established by chapters 41.32 and 41.34 RCW.

TRS is comprised of three separate plans for reporting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

School Employees' Retirement System (SERS)

SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977, and by August 31, 2000, are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2003, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS Plan 3 defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

The Legislature established SERS in 2000. Membership in the system includes all classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2.

Refer to section I of this note for a description of the defined contribution component of SERS Plan 3.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries. There were no other material changes in SERS benefit provisions for the fiscal year ended June 30, 2003.

SERS pension benefit provisions have been established by chapter 41.35 RCW.

SERS is comprised of two separate plans for reporting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for reporting purposes.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2003, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10-19	1.5%
5-9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 provides non-duty disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session allows some members working as fire fighter emergency medical technicians (EMTs) to transfer service credit and contributions earned from PERS Plan 1 or Plan 2 to LEOFF Plan 2 if, while employed for a city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. Members electing to transfer EMT service credit are required to pay the difference between the contributions the employee paid to PERS Plan 1 or Plan 2 and the contributions that would have been paid by the employee had they been a member of LEOFF Plan 2, plus interest.

Other legislation passed in the 2003 session requires Department of Fish and Wildlife enforcement officers formerly in PERS Plan 2 or PERS Plan 3, to become members of LEOFF Plan 2, effective July 27, 2003. Service prior to the effective date will remain in PERS.

There were no other material changes in LEOFF benefit provisions for the fiscal year ended June 30, 2003.

LEOFF pension benefit provisions have been established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS)

WSPRS is a single-employer retirement system comprised of two defined benefit plans. WSPRS participants who joined the system by December 31, 2002, are Plan 1 members. Those who joined on or after January 1, 2003, are Plan 2 members.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the WSPRS Plan 1 and Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2003, the DRS-established rate on employee contributions was 5.5 percent compounded annually and posted monthly. Employees in WSPRS Plan 1 and Plan

2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Legislation passed in the 2001 session created a Washington State Patrol Plan 2. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

WSPRS retirement benefits are vested after an employee completes five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. For Plan 1 members, AFS is based on the average of the two highest-paid years and excludes voluntary overtime. For Plan 2 members, AFS is based on the average of the five highest-paid years and excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, Plan 2 members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of the FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. Death benefits for active-duty Plan 2 members consist of the following: (1) If the member is single or has less than 10 years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed 10 years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option *or* 150 percent of the member's accumulated contributions, at the survivor's option. In addition, a duty death benefit of \$150,000 is provided to all WSPRS members.

There were no other material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2003.

WSPRS pension benefit provisions have been established by chapter 43.43 RCW.

Judicial Retirement System (JRS)

JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1, 1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

<u>Term of Service</u>	<u>Percent of AFC</u>
15+	3.5%
10-14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2003.

JRS pension benefit provisions have been established by chapter 2.10 RCW.

Judges' Retirement Fund (Judges)

The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation in which the state pays the remaining contributions. Employees do not earn interest on their

contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2003.

Judges' pension benefit provisions have been established by chapter 2.12 RCW.

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

VFFRPF is a cost-sharing multiple-employer retirement system that provides death and active duty disability benefits to all members, and optional defined benefit pension plan payments.

VFFRPF retirement benefits are financed from a combination of investment earnings, member contributions, municipality contributions, and a special funding situation where the state pays the remaining contributions. VFFRPF members accrue no interest on contributions and may elect to withdraw their contributions upon termination.

VFFRPF was created by the Legislature in 1945. Membership in the system requires volunteer firefighter service with a fire department of an electing municipality of Washington State.

Retirement benefits are established in state statute and may be amended only by the state Legislature. Since retirement benefits cover volunteer service, benefits are

paid based on years of service not salary. Members are vested after ten years of service.

After 25 years of active membership, members having reached the age of 65 and who have paid their annual retirement fee for 25 years are entitled to receive a monthly benefit of \$50 plus \$10 per year of service. The maximum monthly benefit is \$300. Reduced pensions are available for members under the age of 65 or with less than 25 years of service.

Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of \$152,000. Funeral and burial expenses are also paid in a lump sum of \$2,000 for members on active duty. Members receiving disability benefits at the time of death shall be paid \$500. Members on active duty shall receive disability payments of \$2,550 per month for up to six months; thereafter, payments are reduced. Disabled members receive \$1,275 per month, their spouse \$255, and dependent children \$110. Benefit provisions for VFFRPF are established under the authority of chapter 41.24 RCW.

Effective July 1, 2001, the disability income benefits and the maximum survivor benefits under the Relief Plan are increased for increases in the CPI.

The benefit formula was changed from \$30 plus \$10 per year of service to \$50 plus \$10 per year of service. There were no other material changes in VFFRPF benefit provisions for the fiscal year ended June 30, 2003.

C. Funding Policies

Contributions towards the amortization of the PERS 1 and TRS 1 unfunded actuarial accrued liability are suspended for the 2003-2005 biennium.

Public Employees' Retirement System (PERS)

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to PERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of PERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of PERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates

dependent on the employee's age. The Employee Retirement Benefits Board may adopt other options.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2003 were as follows:

PERS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates:			
State agencies*	1.32%	1.32%	1.32%**
Local governmental units*	1.32%	1.32%	1.32%**
State gov't elected officials*	1.87%	1.32%	1.32%**
Employee Rates:			
State agencies	6.00%	0.65%	***
Local governmental units	6.00%	0.65%	***
State gov't elected officials	7.50%	0.65%	***

*Includes an administrative expense rate of 0.22 percent.

**Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

Teachers' Retirement System (TRS)

Each biennium the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to TRS Plan 3 defined contribution. Employees who participate in the defined contribution portion of TRS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of TRS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board may adopt other options.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2003 were as follows:

TRS Actual Contribution Rates

	PLAN 1	PLAN 2	PLAN 3
Employer Rates *	1.27%	1.27%	1.27%**
Employee Rates:			
State agencies	6.00%	0.15%	***
Local governmental units	6.00%	0.15%	***
State gov't elected officials	7.50%	0.15%	***

* Includes an administrative expense rate of 0.22 percent.

** Plan 3 defined benefit portion only.

*** Variable from 5% to 15% based on rate selected by the member.

School Employees' Retirement System (SERS)

Each biennium the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. There are no employer contributions to SERS Plan 3 defined contribution. Employees who participate in the defined contribution portion of SERS Plan 3 contribute to the defined contribution plan instead of the defined benefit portion of SERS Plan 3. The employee chooses from six rate options provided in statute ranging from 5 to 15 percent, two of the options are graduated rates dependent on the employee's age. The Employee Retirement Benefits Board may adopt other options.

The methods used to determine the contribution requirements are established under state statute in chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2003 were as follows:

SERS Actual Contribution Rates

	PLAN 2	PLAN 3
Employer Rates:		
State agencies*	1.18%	1.18% **
Local governmental units*	1.18%	1.18% **
Employee Rates:		
State Agencies	0.35%	***
Local Governmental Units	0.35%	***

*Includes an administrative expense rate of 0.22 percent.

**Plan 3 defined benefit portion only.

***Variable from 5% to 15% based on rate selected by the member.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Beginning on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2003 were as follows:

LEOFF Actual Contribution Rates		
	PLAN 1	PLAN 2
Employer Rates:		
Ports and Universities*	NA	4.61%
Local governmental units*	0.22%	2.86%
Employee Rates:		
Ports and Universities	NA	4.39%
Local governmental units	NA	4.39%
State of Washington	NA	1.75%

*Includes an administrative expense rate of 0.22 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the State Constitution and this funding requirement could be returned to the employers by a change of statute.

Washington State Patrol Retirement System (WSPRS)

State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 2 percent for Fiscal Year 2003. The Pension Funding Council in accordance with chapter 41.45 RCW adopts contribution rates for the employee and the state. The employee and the state are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current year covered payroll) at the close of Fiscal Year 2003 were as follows:

WSPRS Actual Contribution Rates		
	PLAN 1	PLAN 2
Employer Contributions	0.00%	0.00%
Employee Contributions	2.00%	2.00%

Judicial Retirement System (JRS)

Contributions made are based on rates set in chapter 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2003, the state contributed \$6 million.

Judges' Retirement Fund (Judges)

Contributions made are based on rates set in chapter 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement Fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2003, the state contributed \$.25 million.

The Volunteer Fire Fighters' Relief and Pension Fund (VFFRPF)

The retirement provisions of VFFRPF is funded through member contributions of \$30 per year, employer contributions of \$30 per year, and 40 percent of the Fire Insurance Premium Tax, as per chapter 41.24 RCW. VFFRPF members earn no interest on contributions and may elect to withdraw their contributions upon termination. The death and disability provisions of VFFRPF are funded by an employer contribution rate of \$10 per member.

Administrative expenses are funded through fire insurance premium taxes and are maintained in a separate fund. Amounts not needed for administrative expenses are transferred to VFFRPF.

D. Employer Contributions Required and Paid

The following table presents the state of Washington's required contributions in millions of dollars to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2003	2002	2001
PERS Plan 1	\$28.8	\$35.3	\$94.0
PERS Plan 2/3	18.5	26.2	58.2
TRS Plan 1	0.6	1.7	3.5
TRS Plan 2/3	0.1	0.4	0.3
SERS Plan 2/3	0.0	0.0	0.0
LEOFF Plan 1	0.0	0.0	0.0
LEOFF Plan 2	16.6	15.8	21.1
VFFRPF	3.3	3.3	3.3

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

E. Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation (NPO), in millions, to the plans listed for the current year were as follows:

	WSPRS	JRS	Judges
Annual Required Contribution	\$0.0	\$16.2	\$0.1
Interest on NPO	(2.4)	3.6	(0.2)
Adjustment to annual required contribution	3.6	(8.4)	0.5
Annual Pension Cost	1.2	11.4	0.4
Less Contributions Made	0.0	6.2	0.3
Increase (decrease) in NPO	1.2	5.2	0.1
NPO at beginning of year	(29.6)	44.7	(2.8)
NPO at end of year	(28.4)	49.9	(2.7)

The valuation date for the plans is September 30, 2002. The actuarial cost method for the WSPRS is aggregate and for JRS and Judges is entry age normal. The unfunded amount is being amortized as a level dollar amount to December 31, 2008, for JRS. All other methods and assumptions are the same as used in funding and disclosed in "Notes to the Required Supplementary Information – Defined Benefit Pension Plans."

F. Three Year Trend Information

The following table presents three-year trend information in millions for the plans listed:

	2003	2002	2001
WSPRS			
Annual Pension Cost	\$1.2	\$1.3	\$1.4
% of APC contributed	0.0	0.0	0.0
NPO	\$(28.4)	\$(29.6)	\$(30.9)
JRS			
Annual Pension Cost	\$11.4	\$10.7	\$10.6
% of APC contributed	54.6	57.9	68.9
NPO	\$49.9	\$44.7	\$40.1
Judges			
Annual Pension Cost	\$0.4	\$0.5	\$0.4
% of APC contributed	75.0	60.0	200.0
NPO	\$(2.7)	\$(2.8)	\$(3.0)

There are no long-term contracts for contributions for any of the retirement plans administered by the state.

G. Changes in Actuarial Assumptions and Methods

The method used to determine the actuarial value of assets was changed from a 4-year smoothing method to a graded 1 to 8-year smoothing method, depending on the size of the annual investment gain or loss, for all plans except VFFRPF, which continues to use the prior 4-year smoothing method, and JRS and Judges which continue to use market value.

H. Changes in Benefit Provisions

As noted in Note 11B, the 2003 legislative session provided for the following changes in benefit provisions: allowing some members working as fire fighter emergency medical technicians (EMTs) to transfer service credit and contributions earned from PERS Plan 1 or Plan 2 to LEOFF Plan 2, allowing Department of Fish and Wildlife enforcement officers membership in LEOFF 2, and permanently adopting the \$150,000 death benefit to members of PERS, SERS and TRS which was to expire on June 30, 2003. These changes had no impact on PERS and TRS contribution rates and only a small impact on the LEOFF and SERS contribution rates.

I. Defined Contribution Plans

Public Employees' Retirement System Plan 3 (PERS 3)

The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977, and by either, February 28, 2002, for state and higher education employees, or August 31, 2002, for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Refer to section B of this note for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on age. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2003, employee contributions required and made were \$32.6 million, and plan refunds paid out were \$5.7 million.

Teachers' Retirement System Plan 3 (TRS 3)

The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include certificated employees in grades K-12 in the public schools. TRS participants who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. Refer to Section B of this note for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2003, employee contributions required and made were \$168.2 million and plan refunds paid out were \$19.3 million.

School Employees' Retirement System Plan 3 (SERS 3)

The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through the Department of Retirement Systems (DRS). Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977, and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, are also members of SERS Plan 3. Refer to Section B of this note for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2003, employee contributions required and made were \$44.3 million and plan refunds paid out were \$11.3 million.

Judicial Retirement Account (JRA)

The Judicial Retirement Account Plan was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state Office of the Administrator for the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the PERS for their services as a judge. Vesting is full and immediate. There are three participating employers in JRA.

Employee contributions equal 2.5 percent of covered salary and the state, as employer, matches this amount. Contributions are collected by the Office of the Administrator for the Courts. The employer and employee obligations to contribute are established per chapter 2.14 RCW. Current-year covered payroll for JRA employees was \$22.3 million for the fiscal year ended June 30, 2003. For Fiscal Year 2003, the contribution requirement for JRA was \$1.1 million. Actual employer and employee contributions were \$556 thousand each, for a total of \$1.1 million. Plan benefits paid out for Fiscal Year 2003 totaled \$168 thousand.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF)

TIAA/CREF, privately administered defined contribution plans, provide individual retirement fund contracts for each eligible employee. There are 38 state participating employers in the TIAA/CREF plan. Eligible employees include higher education faculty and other positions as designated by each institution; participation was established under chapter 28B.10 RCW. The employee must commence participation within the first two years of employment. Once eligible to participate in this system, members are vested immediately.

Employee contribution rates, which are based on age, range from 5 to 10 percent of salary. These rates are matched by the institution and sent to TIAA/CREF. The employer and employee obligations to contribute are established per chapter 28B.10 RCW. For Fiscal Year 2003, covered payroll for TIAA/CREF employees was \$1.2 billion and the contribution requirement for TIAA/CREF was \$202 million. Actual employer and

employee contributions were \$101 million each, for a total of \$202 million. These contribution amounts represent approximately 8 percent of covered payroll for employers and employees.

TIAA/CREF benefits are payable upon termination at the member's option unless the participant is reemployed in another institution which participates in TIAA/CREF. Upon retirement, participant accumulations are used to purchase an annuity. The benefits are determined as follows: TIAA - accumulations are converted to a fixed guaranteed annuity payable for life. In addition to the guaranteed annuity, a dividend payment is declared each year depending on investment performance; CREF - at retirement the value of the fund is converted to a variable annuity. This means the annuity is not guaranteed but rises and falls with the value of equity investments.

J. Plan Net Assets and Changes in Plan Net Assets

Pension plan investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Private equity investments are valued by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value equals five percent or more of each plan's net assets.

The Combining Statement of Plan Net Assets that follows presents the principal components of receivables, investments, and liabilities.

The Combining Statement of Changes in Plan Net Assets presents the additions and deductions to plan net assets.

Combining Statement of Plan Net Assets

Pension and Other Employee Benefit Funds

June 30, 2003

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
Assets:							
Cash and pooled investments	\$ 5,934	\$ -	\$ 342	\$ 5,010	\$ 619	\$ 2,720	\$ 355
Receivables:							
Interest and dividends	24,794	27,010	390	21,022	9,217	2,683	3,726
Due from other funds	2,145	441	240,888	933	3,071	10,473	743
Due from other governments	5,522	6,305	2,238	4,010	2,120	11,117	1,232
Other (net of allowance)	5,939	5,768	82	4,809	1,946	565	787
Total Receivables	38,400	39,524	243,598	30,774	16,354	24,838	6,488
Investments, Noncurrent:							
Asset backed securities	40,277	43,932	640	34,156	14,963	4,396	6,047
Collateralized mort oblig	367,220	400,542	5,835	311,410	136,420	40,082	55,134
Commercial paper	-	-	-	-	-	-	-
Corporate bonds	910,732	993,371	14,470	772,318	338,331	99,406	136,737
Corporate stock	418,280	456,234	6,646	354,709	155,388	45,655	62,800
Govt securities domestic	298,545	325,635	4,744	253,172	110,907	32,586	44,823
Govt securities foreign	44,300	48,319	704	37,567	16,457	4,835	6,651
Government bonds	1,339	1,461	21	1,136	498	146	201
Repurchase agreements	1,453	154	-	1,120	471	-	159
Certificates of deposit	33,253	36,270	528	28,199	12,353	3,629	4,993
Mutual funds	3,582,638	3,907,726	361,176	3,038,149	1,330,926	1,250,000	537,896
Mortgages	314,022	342,517	4,990	266,297	116,657	34,275	47,147
Real estate	810,018	883,519	12,870	686,911	300,916	88,413	121,616
Private equity	1,244,320	1,357,229	19,771	1,055,208	462,257	135,817	186,821
Investments on loan	301,433	328,785	4,790	255,621	111,980	32,901	45,257
Short term investments	569,158	629,244	7,809	483,905	226,231	57,570	91,712
Other noncurrent investments	50	4	-	38	16	-	5
Total Investments, Noncurrent	8,937,038	9,754,942	444,994	7,579,916	3,334,771	1,829,711	1,347,999
Total Assets	\$ 8,981,372	\$ 9,794,466	\$ 688,934	\$ 7,615,700	\$ 3,351,744	\$ 1,857,269	\$ 1,354,842
Liabilities:							
Obligations under security							
lending agreements	\$ 320,664	\$ 348,379	\$ 5,024	\$ 271,818	\$ 119,300	\$ 34,597	\$ 48,203
Accrued liabilities	13,675	4,883	53	11,059	1,612	365	651
Due to other funds	438	244,589	437	394	12,384	3,069	4,795
Total Liabilities	334,777	597,851	5,514	283,271	133,296	38,031	53,649
Net Assets							
Net Assets Held in Trust for:							
Pension Benefits	8,646,595	9,196,615	683,420	7,332,429	3,218,448	1,819,238	1,301,193
(Schedule of funding progress by plan begins on page 112)							
Deferred Compensation Participants							
Total Net Assets	\$ 8,646,595	\$ 9,196,615	\$ 683,420	\$ 7,332,429	\$ 3,218,448	\$ 1,819,238	\$ 1,301,193

State of Washington

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
\$ 697	\$ 1,912	\$ 705	\$ 480	\$ 325	\$ 7	\$ 4,491	\$ 9,398	\$ 321	\$ 33,316
1,007	12,373	6,969	1,705	7	-	-	277	-	111,180
3,898	5	2	1	1	-	10	23	1	262,635
3,514	-	4,350	53	16	-	-	-	-	40,477
213	2,669	1,509	359	5	-	4	3,358	1,382	29,395
8,632	15,047	12,830	2,118	29	-	14	3,658	1,383	443,687
1,653	20,111	11,338	2,773	-	-	-	451	-	180,737
15,072	183,355	103,374	25,277	-	-	-	4,109	-	1,647,830
-	-	-	-	-	-	-	-	-	-
37,381	454,735	256,376	62,689	-	-	-	10,191	-	4,086,737
17,168	208,850	117,748	28,792	-	-	-	4,680	-	1,876,950
12,254	149,065	84,042	20,550	-	-	-	3,340	-	1,339,663
1,818	22,119	12,471	3,049	-	-	-	496	-	198,786
55	669	377	92	-	-	-	15	-	6,010
-	570	104	77	52	1	620	1,303	44	6,128
1,365	16,603	9,361	2,289	-	-	-	372	-	149,215
311,259	1,788,836	1,008,533	246,606	-	-	-	40,087	-	17,403,832
12,889	156,793	88,399	21,615	-	-	-	3,514	-	1,409,115
33,247	404,447	228,025	55,756	-	-	-	9,064	-	3,634,802
51,073	621,297	350,283	85,651	-	-	-	13,923	-	5,583,650
12,372	150,508	84,855	20,749	-	-	-	3,373	-	1,352,624
20,850	284,179	166,827	39,807	6,483	-	-	6,356	-	2,590,131
-	20	3	3	2	10,634	22	45	1,461,484	1,472,326
528,456	4,462,157	2,522,116	615,775	6,537	10,635	642	101,319	1,461,528	42,938,536
\$ 537,785	\$ 4,479,116	\$ 2,535,651	\$ 618,373	\$ 6,891	\$ 10,642	\$ 5,147	\$ 114,375	\$ 1,463,232	\$ 43,415,539
\$ 12,984	\$ 159,955	\$ 89,964	\$ 22,050	\$ 52	\$ 1	\$ 620	\$ 4,875	\$ 44	\$ 1,438,530
137	3,238	988	625	139	-	12	48	245	37,730
743	88	343	5	-	-	-	9	8	267,302
13,864	163,281	91,295	22,680	191	1	632	4,932	297	1,743,562
523,921	4,315,835	2,444,356	595,693	6,700	10,641	4,515	109,443		40,209,042
								1,462,935	1,462,935
\$ 523,921	\$ 4,315,835	\$ 2,444,356	\$ 595,693	\$ 6,700	\$ 10,641	\$ 4,515	\$ 109,443	\$ 1,462,935	\$ 41,671,977

Combining Statement of Changes in Plan Net Assets

Pension and Other Employee Benefit Funds

For the Fiscal Year Ended June 30, 2003

(expressed in thousands)

	PERS Plan 1	PERS Plan 2/3 Defined Benefit	PERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3 Defined Benefit	TRS Plan 3 Defined Contribution	SERS Plan 2/3 Defined Benefit
Additions:							
Contributions:							
Employers	\$ 56,619	\$ 38,287	\$ -	\$ 20,358	\$ 18,225	\$ -	\$ 6,154
Members	66,870	36,668	32,634	48,585	931	168,241	1,913
State	-	-	-	-	-	-	-
Participants	-	-	-	-	-	-	-
Total Contributions	123,489	74,955	32,634	68,943	19,156	168,241	8,067
Investment Income:							
Net appreciation (depreciation) in fair value	115,168	148,785	12,310	100,949	57,869	25,419	23,452
Interest and dividends	225,317	238,274	6,897	190,783	86,590	18,550	35,317
Less: Investment expenses	(19,698)	(21,145)	(428)	(16,676)	(8,332)	(1,943)	(3,353)
Net Investment Income	320,787	365,914	18,779	275,056	136,127	42,026	55,416
Transfers from other pension plans	153	222	609,477	51	236	775	1,900
Other additions	-	-	-	-	-	-	-
Total Additions	444,429	441,091	660,890	344,050	155,519	211,042	65,383
Deductions:							
Pension benefits	776,683	72,460	-	689,253	10,861	-	4,305
Pension refunds	5,677	30,835	5,737	1,521	3,537	19,331	2,220
Transfers to other pension plans	25	611,721	207	-	807	238	329
Administrative expenses	429	161	-	174	102	-	26
Distributions to participants	-	-	-	-	-	-	-
Total Deductions	782,814	715,177	5,944	690,948	15,307	19,569	6,880
Net Increase	(338,385)	(274,086)	654,946	(346,898)	140,212	191,473	58,503
Net Assets - Beginning	8,984,980	9,470,701	28,474	7,679,327	3,078,236	1,627,765	1,242,690
Net Assets - Ending	\$ 8,646,595	\$ 9,196,615	\$ 683,420	\$ 7,332,429	\$ 3,218,448	\$ 1,819,238	\$ 1,301,193

State of Washington

SERS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1	JRS	JRA	Judges	VFFRPF	Deferred Compensation	Total
\$ -	\$ 62	\$ 25,583	\$ -	\$ 215	\$ 556	\$ 6	\$ 777	\$ -	\$ 166,842
44,293	78	41,588	1,314	215	556	6	154	-	444,046
-	-	16,404	-	6,000	-	250	3,300	-	25,954
-	-	-	-	-	-	-	-	135,901	135,901
44,293	140	83,575	1,314	6,430	1,112	262	4,231	135,901	772,743
7,762	60,416	43,770	8,901	(1)	111	(15)	1,276	5,266	611,438
6,865	111,560	60,105	15,212	125	278	134	2,776	37,870	1,036,653
(487)	(9,756)	(5,248)	(1,330)	(8)	-	(10)	(240)	-	(88,654)
14,140	162,220	98,627	22,783	116	389	109	3,812	43,136	1,559,437
317	1	140	121	-	-	-	-	-	613,393
-	-	-	-	-	8	-	-	1,188	1,196
58,750	162,361	182,342	24,218	6,546	1,509	371	8,043	180,225	2,946,769
-	264,618	4,058	24,047	8,279	168	639	7,543	-	1,862,914
11,328	158	5,125	221	-	-	-	18	-	85,708
66	-	-	-	-	-	-	-	-	613,393
-	212	69	22	-	12	-	52	1,741	3,000
-	-	-	-	-	-	-	-	68,469	68,469
11,394	264,988	9,252	24,290	8,279	180	639	7,613	70,210	2,633,484
47,356	(102,627)	173,090	(72)	(1,733)	1,329	(268)	430	110,015	313,285
476,565	4,418,462	2,271,266	595,765	8,433	9,312	4,783	109,013	1,352,920	41,358,692
\$ 523,921	\$ 4,315,835	\$ 2,444,356	\$ 595,693	\$ 6,700	\$ 10,641	\$ 4,515	\$ 109,443	\$ 1,462,935	\$ 41,671,977

Note 12 - Commitments and Contingencies

A. Construction and Other Commitments

Outstanding commitments related to state facility construction, improvement, and/or renovation totaled \$2.2 billion at June 30, 2003.

B. Summary of Significant Litigation

The state and its agencies are parties to numerous routine legal proceedings that normally occur in governmental operations. At any given point, there may be numerous lawsuits involving state agencies that could impact expenditures. There is a recurring volume of tort and other claims for compensation and damages against the state and some specific state agencies, including the Departments of Transportation, Social and Health Services, and the University of Washington. There are risk management funds reserved by the state for these claims and insurance is available to pay a portion of damages for certain types of claims. There has been a trend over the past few years of higher jury verdicts on certain types of damage claims. The collective impact of these claims, however, is not likely to have a material impact on state revenues or expenditures.

Social Service Program Administration Litigation

During the reporting period, there have been additional challenges or developments in pending cases involving the administration of state social service programs. These include:

Pierce County, et al. v. DSHS, et al. This case is a challenge to the state's mental health system, which contemplates a joint state-local responsibility for providing a continuum of services. The county asserts that the state agency and the Legislature have failed in their duty to provide care for the mentally ill and developmentally disabled. If relief is granted to the plaintiff, it is difficult to estimate the cost to the agency to comply with the court order.

Arc of Washington v. Quasim; Boyle v. Braddock. Both of these cases involve challenges to DSHS's administration of programs for developmentally disabled clients. A proposed settlement in the *Arc* case was rejected by the federal court and the case was dismissed. An appeal was taken by plaintiffs to the Ninth Circuit Court of Appeals. The *Boyle* case is a related class action, also dismissed by the federal district court and with an appeal also pending. Biennial costs of providing the expanded program services sought by the so far unsuccessful plaintiffs range from approximately \$165 to \$222 million.

Braam v. State. In May 2002, the Whatcom County Superior Court entered an injunction mandating significant changes to the state's foster care system. Although most of the injunction was stayed pending appeal, DSHS estimates it would cost approximately \$60 million per year to comply with the injunction. The state is awaiting a decision from the Washington State Supreme Court on its appeal.

Keffeler v. DSHS. This is a class action challenging DSHS's authority when acting as a foster child's representative to use Social Security benefits for the costs of foster care. In February 2003, the United States Supreme Court upheld the state's position, but remanded the case to the Washington State Supreme Court for further proceedings regarding the constitutionality of the program. DSHS currently receives about \$9 million a year from the Social Security Administration for foster care costs. It is difficult to quantify the risk and possible liability to the state if the next phase of *Keffeler* is unsuccessful.

Townsend v. Braddock. This is a class action on behalf of elderly and disabled adults under the Americans with Disabilities Act (ADA). At issue is whether there will be an expansion of eligibility for a home and community based care program (COPES-like program). Potential costs to the state are unknown. The case is in active settlement discussions, after a summary judgment ruling in favor of the state was reversed on appeal.

Higher Education Litigation

There have been a series of lawsuits challenging personnel and administrative practices by the State Board for Community and Technical Colleges. Several have been successfully defended or settled. In the most recent case, part-time faculty sought state-paid health care benefits during the summer quarter. In June 2003, the Washington State Supreme Court ruled in favor of the faculty plaintiffs. Further action has been stayed pending settlement evaluation and negotiations. Approximate value of the benefits owed to plaintiffs is in the range of \$20 to \$40 million, an amount that is significantly higher than the likely settlement value.

Personnel Administration Litigation

McGinnis v. State. This is a class action wage involving all employees working in straight hour shifts at all state institutions. Plaintiffs claim they have not been provided adequate meal or rest periods. The state won on summary judgment after legislative amendment of the relevant statute, and an appeal was taken by the employee class directly to the Washington State Supreme Court, where it is now pending. The potential

compensation claim could exceed \$100 million if the state does not continue to prevail on appeal.

Tax and Medical Assistance Litigation

While there is a recurring volume of lawsuits seeking refunds of taxes paid to the state, there are currently no pending cases of such significance that they should be reported at this time. Similarly, there have in the past been a number of cases involving Medicaid reimbursement claims of significant magnitude. However, at this time those cases have been or are near settlement in amounts that do not require discussion in this report.

C. Federal Assistance

The state has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the state. The state does estimate and recognize a claims and judgments liability for disallowances when determined by the grantor agency or for probable disallowances based on experience pertaining to these grants; however, these recognized liabilities and any unrecognized disallowances are considered immaterial to the state's overall financial condition.

D. Arbitrage Rebate

Rebatable arbitrage is defined by the Internal Revenue Service Code Section 148 as earnings on investments purchased from the gross proceeds of a bond issue that are in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

E. Other Commitments and Contingencies

School Bond Guarantee Program

Washington voters passed a constitutional amendment in November 1999, creating the Washington State School

Bond Guarantee Program. The program's purpose is to provide savings to state taxpayers by pledging the full faith and credit of the state of Washington to the full and timely payment of voter-approved school district general obligation bonds in the event a school district is unable to make a payment. The issuing school district remains responsible for the repayment of the bonds, including any payment the state makes under the guarantee.

The State Treasurer introduced the School Bond Guarantee Program in March 2000. At the end of Fiscal Year 2003, the state had guaranteed 122 school districts' voter-approved general obligation debt with a total outstanding principal of \$2.6 billion. The state estimates that school bond guarantee liability, if any, will be immaterial to its overall financial condition.

Local Option Capital Asset Lending Program (LOCAL)

On September 1, 1998, the state lease-purchase program was extended to local governments seeking low cost financing of essential equipment. The program allows local governments to pool their financing requests together with Washington State agencies in Certificates of Participation (COPs). Refer to Note 7.B for the state's COP disclosure. These COP's do not constitute a debt or pledge of the faith and credit of the state, rather local governments pledge their full faith and credit in a general obligation pledge. In the event that any local government fails to make any payment, the state is obligated to withhold an amount sufficient to make such payment from the local government's share, if any, of state revenues or other amounts authorized or required by law to be distributed by the state to such local government, if otherwise legally permissible. Upon failure of any local government to make a payment, the state is further obligated, to the extent of legally available appropriated funds to make such payment on behalf of such local government. The local government remains obligated to make all COP payments and reimburse the state for any conditional payments.

As of June 30, 2003, outstanding certificates of participation notes totaled \$34.9 million for 166 local governments participating in LOCAL. The state estimates that LOCAL program liability, if any, will be immaterial to its overall financial condition.

Note 13 - Subsequent Events

A. Bond Issues

In August 2003, the state issued \$271.4 million in Various Purpose General Obligation Bonds, Series 2004A, \$200 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2004B, and \$110 million in Motor Vehicle Fuel Tax General Obligation Bonds, Series 2004C.

In October 2003, the state issued \$20 million in General Obligation Taxable Bonds, Series 2004T.

In October 2003, the state issued \$124 million in Various Purpose General Obligation Refunding Bonds, Series 2004A, and \$57 million in Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2004B.

B. Certificates of Participation

In September 2003, the state issued \$5.9 million in Certificates of Participation for various state and local government equipment purchases, Series 2003C.

In December 2003, the state issued \$3.9 million in Certificates of Participation for various state and local

government equipment and real estate purchases, Series 2003G.

C. Office Building Lease

The 2001 Legislature authorized the state to lease-develop an office building in Tumwater, Washington. On October 23, 2003, the state entered into a ground lease and a lease agreement with Tumwater Office Properties (TOP), a Washington nonprofit corporation. The agreements call for TOP to design and construct an office building and to finance it with tax-exempt obligations that meet the requirements of Revenue Ruling 63-20 and Revenue Procedure 82-26 issued by the Internal Revenue Service. The state is required to make monthly payments that equal the required debt service on the bonds. Additional amounts may also be due per the terms of the lease agreement. The lease agreements provide the state with options to purchase the building during the term of the lease and transfer ownership of the building to the state at the end of the lease. The office building is scheduled for occupancy in September 2005.

Required Supplementary Information

Budgetary Information

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	General Fund			
	Original Budget 2001-03 Biennium	Final Budget 2001-03 Biennium	Actual 2001-03 Biennium	Variance with Final Budget
Budgetary fund balance, July 1	\$ 410,520	\$ 564,950	\$ 564,950	-
Resources:				
Taxes	21,535,714	20,842,764	20,901,981	59,217
Licenses, permits, and fees	161,284	155,723	150,336	(5,387)
Other contracts and grants	480,967	476,844	441,029	(35,815)
Timber sales	7,255	7,352	7,526	174
Federal grants-in-aid	9,725,433	9,949,343	9,480,413	(468,930)
Charges for services	69,918	78,792	72,072	(6,720)
Interest income	91,500	92,507	59,492	(33,015)
Miscellaneous revenue	97,261	107,375	170,063	62,688
Transfers from other funds	351,964	1,190,230	1,256,683	66,453
Total Resources	32,931,816	33,465,880	33,104,545	(361,335)
Charges to appropriations:				
General government	2,367,753	2,277,419	2,294,689	(17,270)
Human services	16,292,131	16,031,670	15,934,400	97,270
Natural resources and recreation	509,265	520,455	489,473	30,982
Transportation	47,217	47,602	45,813	1,789
Education	13,863,237	13,856,765	13,702,636	154,129
Capital outlays	294,045	235,269	78,329	156,940
Transfers to other funds	140,142	140,883	157,332	(16,449)
Total Charges to appropriations	33,513,790	33,110,063	32,702,672	407,391
Excess available for appropriation				
Over (Under) charges to appropriations	(581,974)	355,817	401,873	46,056
Reconciling Items:				
Changes in reserves (net)	-	-	(46,984)	(46,984)
Entity adjustments (net)	-	-	49,692	49,692
Accounting and reporting changes (net)	-	-	-	-
Total Reconciling Items	-	-	2,708	2,708
Budgetary Fund Balance, June 30	\$ (581,974)	\$ 355,817	\$ 404,581	\$ 48,764

Budgetary Information

Budgetary Comparison Schedule

Budget to GAAP Reconciliation

General Fund

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "Available for Appropriation" from the Budgetary Comparison Schedule	\$ 33,104,545
Differences - budget to GAAP:	
The following items are inflows of budgetary resources but are not revenue for financial reporting purposes:	
Transfers from other funds	(1,256,683)
Budgetary fund balance at the beginning of the year	(564,950)
The following items are not inflows of budgetary resources but are revenue for financial reporting purposes:	
Noncash commodities and food stamps	767,445
Unanticipated receipts	253,125
Noncash revenues	49,685
Revenues collected for other governments	51,282
Biennium total revenues	\$ 32,404,449
Fiscal Year 2002 total revenues	(15,905,985)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	\$ 16,498,464
Uses/outflows of resources	
Actual amounts (budgetary basis) "Total Charges to Appropriations" from the Budgetary Comparison Schedule.	\$ 32,702,672
Differences - budget to GAAP:	
Budgeted expenditure transfers are recorded as expenditures in the budget statement but are recorded as other financing source (use) for financial reporting purposes.	(1,303,889)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(157,332)
The following items are not outflows of budgetary resources but are recorded as current expenditures for financial reporting purposes.	
Noncash commodities and food stamps	767,445
Expenditures related to unanticipated receipts	253,125
Capital lease acquisitions	18,424
Distributions to other governments	51,283
Biennium total revenues	\$ 32,331,728
Fiscal Year 2002 total expenditures	(15,992,487)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	16,339,241

Budgetary Information

Notes to Required Supplementary Information

General Budgetary Policies and Procedures

The Governor is required to submit a budget to the state Legislature no later than December 20 of the year preceding odd-numbered year sessions of the Legislature. The budget is a proposal for expenditures in the ensuing biennial period based upon anticipated revenues from the sources and rates existing by law at the time of submission of the budget. The Governor may additionally submit, as an appendix to the budget, a proposal for expenditures in the ensuing biennium from revenue sources derived from proposed changes in existing statutes.

The appropriated budget and any necessary supplemental budgets are legally required to be adopted through the passage of appropriation bills by the Legislature and approved by the Governor. Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level.

The legal level of budgetary control is at the fund/account, agency, and appropriation level, with administrative controls established at lower levels of detail in certain instances. The accompanying budgetary schedules are not presented at the legal level of budgetary control. This is due to the large number of appropriations within individual agencies that would make such a presentation in the accompanying financial schedules extremely cumbersome. Section 2400.121 of the GASB Codification of Governmental Accounting and Financial Reporting Standards provides for the preparation of a separate report in these extreme cases. For the state of Washington, a separate report has been prepared for the 2001-2003 Biennium to illustrate legal budgetary compliance. Appropriated budget versus actual expenditures, and estimated versus actual revenues and other financing sources (uses) for appropriated funds at agency and appropriation level are presented in Report CAF1054 for governmental funds. A copy of this report is available at the Office of Financial Management, 6639 Capitol Boulevard, PO Box 43113, Olympia, Washington 98504-3113.

Legislative appropriations are strict legal limits on expenditures/expenses, and overexpenditures are

prohibited. All appropriated and certain nonappropriated funds are further controlled by the executive branch through the allotment process. This process allocates the expenditure/expense plan into monthly allotments by program, source of funds, and object of expenditure. According to statute RCW 43.88.110(2), except under limited circumstances, the original allotments are approved by the Governor and may be revised only at the beginning of the second year of the biennium and must be initiated by the Governor. Because allotments are not the strict legal limit on expenditures/expenses, the budgetary schedules presented as required supplementary information (RSI) are shown on an appropriation versus actual comparison rather than an allotment versus actual comparison.

Proprietary funds typically earn revenues and incur expenses (i.e., depreciation or budgeted asset purchases) not covered by the allotment process. Budget estimates are generally made outside the allotment process according to prepared business plans. These proprietary fund business plan estimates are adjusted only at the beginning of each fiscal year.

Additional fiscal control is exercised through various means. OFM is authorized to make expenditure/expense allotments based on availability of unanticipated receipts, mainly federal government grant increases made during a fiscal year. State law does not preclude the over expenditure of allotments, although RCW 43.88.110(3) requires that the Legislature be provided an explanation of major variances.

Operating encumbrances lapse at the end of the applicable appropriation. Capital outlay encumbrances lapse at the end of the biennium unless reappropriated by the Legislature in the ensuing biennium. Encumbrances outstanding against continuing appropriations at fiscal year end are reported as reservations of fund balance.

Budgetary Reporting versus GAAP Reporting

Governmental funds are budgeted materially in conformance with GAAP. However, the presentation in the accompanying budgetary schedules is different in certain respects from the corresponding Statements of Revenues, Expenditures, and Changes in Fund Balance (governmental operating statement). In the accompanying budgetary schedules, budget and actual expenditures are reported only for appropriated activities. Expenditures are classified based on whether the appropriation is from the operating or capital budget. Expenditures funded by operating budget appropriations are reported as current expenditures classified by the function of the agency receiving the appropriation. Expenditures funded by capital budget appropriations are reported as capital outlays.

However, in the governmental operating statements, all governmental funds are included and expenditures are classified according to what was actually purchased. Capital outlays are fixed asset acquisitions such as land, buildings, and equipment. Debt service expenditures are principal and interest payments. Current expenditures are all other governmental fund expenditures classified based on the function of the agency making the expenditures.

Additionally, certain governmental activities are excluded from the budgetary schedules because they are not appropriated. These activities include: activities designated as nonappropriated by the Legislature, such as the Higher Education Special Revenue Fund, Higher Education Endowment Fund, federal surplus food commodities, electronic food stamp benefits, capital

leases, note proceeds, and resources collected and distributed to other governments.

Further, certain expenditures are appropriated as operating transfers. These transfers are reported as operating transfers on the budgetary schedules and as expenditures on the governmental operating statements. The factors contributing to the differences between the Budgetary Comparison Schedule and the Statement of Revenues, Expenditures, and Changes in Fund Balance are noted in the previous Budget to GAAP reconciliation.

Budgetary Fund Balance includes the following as reported on the Governmental Funds Balance Sheet: Unreserved, undesignated fund balance; Unreserved fund balance, designated for other specific purposes; and Reservation for encumbrances.

Pension Plan Information

Public Employees' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2002 through 1997 (dollars in millions)

	2002	2001	2000	1999	1998	1997
Actuarial Valuation Date	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997
Actuarial Value of Plan Assets	\$ 10,757	\$ 10,990	\$ 11,111	\$ 10,456	\$ 9,219	\$ 8,211
Actuarial Accrued Liability	12,560	12,088	11,695	11,636	11,227	10,817
Unfunded Actuarial Liability	1,804	1,098	584	1,180	2,008	2,606
Percentage Funded	86%	91%	95%	90%	82%	76%
Covered Payroll	1,023	1,085	1,132	1,184	1,233	1,271
Unfunded Actuarial Liability as a Percentage of Covered Payroll	176%	101%	52%	100%	163%	205%

Source: Washington State Office of the State Actuary

Teachers' Retirement System - Plan 1

Schedule of Funding Progress

Valuation Years 2002 through 1997 (dollars in millions)

	2002	2001	2000	1999	1998	1997
Actuarial Valuation Date	9/30/2002	9/30/2001	6/30/2000	6/30/1999	6/30/1998	6/30/1997
Actuarial Value of Plan Assets	\$ 9,365	\$ 9,342	\$ 9,372	\$ 8,696	\$ 7,819	\$ 6,844
Actuarial Accrued Liability	10,235	9,895	9,566	9,529	9,354	9,044
Unfunded Actuarial Liability	869	553	194	833	1,535	2,200
Percentage Funded	91%	94%	98%	91%	84%	76%
Covered Payroll	741	800	957	984	1,046	1,083
Unfunded Actuarial Liability as a Percentage of Covered Payroll	117%	69%	20%	85%	147%	203%

Source: Washington State Office of the State Actuary

Pension Plan Information

Law Enforcement Officers' and Fire Fighters' Retirement System- Plan 1

Schedule of Funding Progress

Valuation Years 2002 through 1997 (dollars in millions)

	2002	2001	2000	1999	1998	1997
Actuarial Valuation Date	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997
Actuarial Value of Plan Assets	\$ 5,095	\$ 5,369	\$ 5,440	\$ 5,150	\$ 4,568	\$ 4,087
Actuarial Accrued Liability	4,259	4,153	4,002	4,125	3,906	3,767
Unfunded (Assets in Excess of)						
Actuarial Liability	(836)	(1,216)	(1,437)	(1,024)	(662)	(320)
Percentage Funded	120%	129%	136%	125%	117%	108%
Covered Payroll	80	87	95	106	117	128
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Judicial Retirement System

Schedule of Funding Progress

Valuation Years 2002 through 1997 (dollars in millions)

	2002	2001	2000	1999	1998	1997
Actuarial Valuation Date	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997
Actuarial Value of Plan Assets	\$ 8	\$ 10	\$ 10	\$ 9	\$ 8	\$ 5
Actuarial Accrued Liability	92	91	93	94	97	95
Unfunded Actuarial Liability	84	81	83	85	89	90
Percentage Funded	9%	11%	11%	10%	8%	5%
Covered Payroll	3.0	3.0	4.0	4.0	4.0	4.0
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	2800%	2700%	2075%	2125%	2225%	2250%

Source: Washington State Office of the State Actuary

Pension Plan Information

Volunteer Fire Fighters' Relief and Pension Fund

Schedule of Funding Progress

Valuation Years 2002 through 1997 (dollars in millions)

	2002	2001	2000	1999	1998	1997
Actuarial Valuation Date	12/31/2002	12/31/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997
Actuarial Value of Plan Assets	\$ 124	\$ 129	\$ 126	\$ 118	\$ 102	\$ 91
Actuarial Accrued Liability	110	99	96	98	94	69
Unfunded (Assets in Excess of)						
Actuarial Liability	(14)	(30)	(30)	(20)	(8)	(22)
Percentage Funded	113%	130%	131%	120%	109%	132%
Covered Payroll*	N/A	N/A	N/A	N/A	N/A	N/A
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	N/A	N/A	N/A	N/A	N/A	N/A

*Covered Payroll is not presented because it is not applicable since this is a volunteer organization.

Source: Washington State Office of the State Actuary

Judges' Retirement Fund

Schedule of Funding Progress

Valuation Years 2002 through 1997 (dollars in millions)

	2002	2001	2000	1999	1998	1997
Actuarial Valuation Date	9/30/2002	9/30/2001	12/31/2000	12/31/1999	12/31/1998	12/31/1997
Actuarial Value of Plan Assets	\$ 5	\$ 5	\$ 5	\$ 4	\$ 4	\$ 4
Actuarial Accrued Liability	6	6	6	6	7	7
Unfunded Actuarial Liability	1	1	1	2	3	3
Percentage Funded	83%	83%	83%	67%	57%	57%
Covered Payroll	0.1	0.1	0.1	0.1	0.1	0.2
Unfunded Actuarial Liability as a						
Percentage of Covered Payroll	1000%	1000%	1000%	2000%	3000%	1500%

Source: Washington State Office of the State Actuary

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2003 through 1998

	2003	2002	2001	2000	1999	1998
Public Employees' Retirement						
System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	\$ 228.9	\$ 164.3	\$ 118.8	\$ 199.2	\$ 237.6	\$ 287.2
Employers' Actual Contribution	56.6	68.6	181.7	200.2	234.3	226.1
Percentage Contributed	25%	42%	153%	101%	99%	79%
Public Employees' Retirement						
System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	\$ 141.7	\$ 72.0	\$ 55.6	\$ 103.6	\$ 86.6	\$ 106.3
Employers' Actual Contribution	38.2	51.0	115.0	101.9	238.4	222.8
Percentage Contributed	27%	71%	207%	98%	275%	210%
Teachers' Retirement						
System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	\$ 153.4	\$ 119.8	\$ 90.6	\$ 176.1	\$ 209.7	\$ 269.7
Employers' Actual Contribution	20.4	59.5	141.3	183.0	222.5	211.6
Percentage Contributed	13%	50%	156%	104%	106%	78%
Teachers' Retirement						
System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	\$ 79.5	\$ 66.7	\$ 40.4	\$ 56.2	\$ 45.9	\$ 59.8
Employers' Actual Contribution	18.2	46.4	69.6	75.3	100.2	105.6
Percentage Contributed	23%	70%	172%	134%	218%	177%
School Employees' Retirement						
System - Plan 2/3 (expressed in millions)						
Employers' Annual Required Contribution	\$ 44.2	\$ 19.5	\$ 6.7	**	**	**
Employers' Actual Contribution	6.2	11.3	19.9	**	**	**
Percentage Contributed	14%	58%	297%	**	**	**

Source: Washington State Office of the State Actuary

Note: The Annual Required Contribution (ARC) has gone down with market gains, changes in funding methods, and plan assumptions and up with market losses and plan changes, as have the contributions required by law. The timing of these ups and downs for the ARC and for actual contributions is different because the ARC and actual contribution rates are determined from the results of different valuations. As a result, actual contributions lag behind the ARC for reporting purposes. There are additional differences between the ARC and those required in the statute, but this explains why the actual contributions, as a percentage of required, can be higher one year and lower the next.

** SERS did not exist prior to 9/1/2000

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2003 through 1998

	2003	2002	2001	2000	1999	1998
Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	\$ -	\$ -	\$ -	\$ 6.3	\$ 6.9	\$ 7.5
Employers' Actual Contribution	0.1	0.1	0.1	6.3	7.2	7.6
Percentage Contributed	N/A	N/A	N/A	100%	104%	101%
State Annual Required Contribution	-	-	-	-	-	-
State Actual Contribution	-	-	-	-	48.8	50.4
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A

Law Enforcement Officers' and Fire Fighters' Retirement System - Plan 2 (expressed in millions)						
Employers' Annual Required Contribution	\$ 34.1	\$ 26.2	\$ 20.3	\$ 26.9	\$ 22.3	\$ 22.5
Employers' Actual Contribution	25.6	24.0	31.5	26.2	34.3	31.1
Percentage Contributed	75%	92%	155%	97%	154%	138%
State Annual Required Contribution	22.7	17.5	13.5	18.0	14.9	15.0
State Actual Contribution	16.4	15.6	20.9	17.1	22.2	20.1
Percentage Contributed	72%	89%	155%	95%	149%	134%

Washington State Patrol Retirement System - Plan 1 (expressed in millions)						
Employers' Annual Required Contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employers' Actual Contribution	-	-	-	-	5.9	6.0
Percentage Contributed	N/A	N/A	N/A	N/A	N/A	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Note: The Annual Required Contribution (ARC) has gone down with market gains, changes in funding methods, and plan assumptions and up with market losses and plan changes, as have the contributions required by law. The timing of these ups and downs for the ARC and for actual contributions is different because the ARC and actual contribution rates are determined from the results of different valuations. As a result, actual contributions lag behind the ARC for reporting purposes. There are additional differences between the ARC and those required in the statute, but this explains why the actual contributions, as a percentage of required, can be higher one year and lower the next.

Pension Plan Information

Schedules of Contributions from Employers and Other Contributing Entities

For the Fiscal Years Ended June 30, 2003 through 1998

	2003	2002	2001	2000	1999	1998
Judicial Retirement System (expressed in millions)						
Employers' Annual Required Contribution	\$ 16.2	\$ 14.2	\$ 13.3	\$ 12.5	\$ 12.2	\$ 11.6
Employers' Actual Contribution	6.2	6.2	7.3	7.3	8.8	8.8
Percentage Contributed	38%	44%	55%	58%	72%	76%

Judges' Retirement Fund (expressed in millions)						
Employers' Annual Required Contribution	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.4
Employers' Actual Contribution	0.3	0.3	0.8	0.8	0.8	0.8
Percentage Contributed	300%	150%	400%	267%	267%	200%

Volunteer Fire Fighters' Relief and Pension Fund (expressed in millions)						
Employers' Annual Required Contribution	\$ 0.8	\$ 0.8	\$ 0.7	\$ 0.7	\$ 0.8	\$ 0.7
Employers' Actual Contribution	0.8	0.8	0.7	0.7	0.8	0.7
Percentage Contributed	100%	100%	100%	100%	100%	100%
State Annual Required Contribution	0.7	-	-	0.1	0.8	-
State Actual Contribution	3.3	3.3	3.3	2.7	2.5	2.0
Percentage Contributed	471%	N/A	N/A	2700%	313%	N/A

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Note: The Annual Required Contribution (ARC) has gone down with market gains, changes in funding methods, and plan assumptions and up with market losses and plan changes, as have the contributions required by law. The timing of these ups and downs for the ARC and for actual contributions is different because the ARC and actual contribution rates are determined from the results of different valuations. As a result, actual contributions lag behind the ARC for reporting purposes. There are additional differences between the ARC and those required in the statute, but this explains why the actual contributions, as a percentage of required, can be higher one year and lower the next.

Pension Plan Information

Notes to the Required Supplementary Information

Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2003

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	TRS Plan 1	TRS Plan 2/3	SERS Plan 2/3
Valuation - date	9/30/2002	9/30/2002	9/30/2002	9/30/2002	9/30/2002
Actuarial cost method	entry age	aggregate***	entry age	aggregate***	aggregate***
Amortization Method					
Funding	level %	n/a	level %	n/a	n/a
GASB	level \$	n/a	level \$	n/a	n/a
Remaining amortization period (closed)	6/30/2024	n/a	6/30/2024	n/a	n/a
Asset valuation method	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*
Actuarial assumptions:					
Investment rate of return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases					
Salary Inflation at 4.5%, plus the merit increases described below:					
initial salary merit (grades down to 0%)	6.1%	6.1%	6.2%	6.2%	7.0%
merit period (years of service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes inflation at		3.50%		3.50%	3.50%
Cost of living adjustments	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	Uniform COLA** Gainsharing COLA**	CPI increase, maximum 3%	CPI increase, maximum 3%

N/A indicates data not applicable.

* Asset Valuation Method (for the 8 year graded method): The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last 8 years or, if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss			Annual Gain/Loss		
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
16% and up	8 years	12.50%	8-9%	0 years	100.00%
15-16%	7 years	14.29%	7-8%	1 year	100.00%
14-15%	6 years	16.67%	6-7%	2 years	50.00%
13-14%	5 years	20.00%	5-6%	3 years	33.33%
12-13%	4 years	25.00%	4-5%	4 years	25.00%
11-12%	3 years	33.33%	3-4%	5 years	20.00%
10-11%	2 years	50.00%	2-3%	6 years	16.67%
9-10%	1 year	100.00%	1-2%	7 years	14.29%
			1% and lower	8 years	12.50%

LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1	JRS	Judges	VFFRPF
9/30/2002	9/30/2002	9/30/2002	9/30/2002	9/30/2002	12/31/2002
entry age	aggregate***	aggregate***	entry age****	entry age****	entry age
level %	n/a	n/a	n/a	n/a	level \$
level \$	n/a	n/a	level \$	level \$	level \$
6/30/2024	n/a	n/a	12/31/2008	12/31/2008	12/31/2017
8-year graded smoothed fair value*	8-year graded smoothed fair value*	8-year graded smoothed fair value*	market	market	4-year smoothed fair value
8.00%	8.00%	8.00%	8.00%	8.00%	8.00% n/a
11.7%	11.7%	6.0%	0.0%	0.0%	n/a
21 yrs	21 yrs	20 yrs			none
3.50%	3.50%	3.50%	3.50%	3.50%	
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	3.00%	none	

** Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year.

The Uniform COLA increase is added every July. On 7/1/1999, it was \$0.77 per year of service.

The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved.

In 1998 it was \$0.11. On 1/1/2000 it was \$0.28 per year of service. On 1/1/2002, no Gainsharing COLA was added.

The next Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount,

all increased by 3%. On 7/1/2000, it was $(\$0.77 + \$0.28) \times 1.03 = \$1.08$. On 7/1/2001, it was $(\$1.08 + \$0.00) \times 1.03 = \$1.11$.

On 7/1/2002, it was $(\$1.11 + \$0.00) \times 1.03 = \$1.14$. On 7/1/2003 it was $(\$1.14 + \$0.00) \times 1.03 = \$1.18$.

*** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

**** pay-as-you-go basis funding

Information about Infrastructure Assets Reported Using the Modified Approach

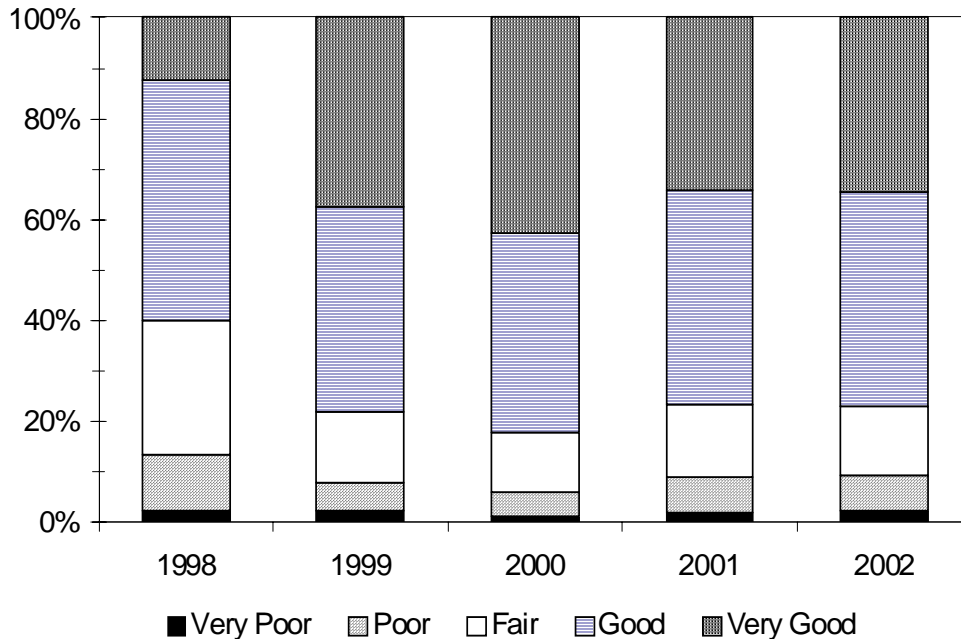
Condition Assessment

Pavement Condition

The Washington State Department of Transportation (WSDOT) owns and maintains 19,204 lane miles of highway, including ramps and collectors. WSDOT has been rating pavement condition since 1969. Pavement rated in *good* condition is smooth and has few defects. Pavement in *poor* condition is characterized by cracking, patching, roughness and rutting. Pavement condition is rated using three factors: Pavement Structural Condition (PSC), International Roughness Index (IRI), and Rutting.

In 1993 the Legislature required WSDOT to rehabilitate pavements at the Lowest Life Cycle Cost, which has been determined to occur at a PSC range between 40 and 60, or when triggers for roughness or rutting are met. The trend over the last five years has shown slight decreases in the percent of pavements in poor or worse condition.

Pavement Condition - All Pavements



In 2002, WSDOT rated pavement condition on 17,843 of the 19,204 lane miles of highway.

The Department of Transportation manages State Highways targeting the lowest life cycle cost per the Pavement Management System due date. While the department has a long-term goal of no pavements in poor condition (a pavement condition index less than 40, on a 100 point scale), the policy for the current biennium is to

maintain 90 percent of all highway pavement types at a pavement condition index of 40 or better with no more than 10 percent of its highways at a pavement condition index below 40. The most recent assessment found that State Highways were within the prescribed parameters with only nine percent of all pavement types with a pavement condition index below 40.

WSDOT uses the following scale for Pavement Structural Condition (PSC):

Category	PSC Range	Description
Very Good	80 – 100	Little or no distress. Example: Flexible pavement with 5% of wheel track length having “hairline” severity alligator cracking will have a PSC of 80.
Good	60 - 80	Early stage deterioration. Example: Flexible pavement with 15% of wheel track length having “hairline” alligator cracking will have a PSC of 70.
Fair	40 - 60	This is the threshold value for rehabilitation. Example: Flexible pavement with 25% of wheel track length having “hairline” alligator cracking will have a PSC of 50.
Poor	20 - 40	Structural deterioration. Example: Flexible pavement with 25% of wheel track length having “medium (spalled)” severity alligator cracking will have a PSC of 30.
Very Poor	0 - 20	Advanced structural deterioration. Example: Flexible pavement with 40% of wheel track length having “medium (spalled)” severity alligator cracking will have a PSC of 10. May require extensive repair and thicker overlays.

The PSC is a measure based on distresses such as cracking and patching which are related to the pavement’s ability to carry loads. Pavements develop structural deficiencies due to truck traffic and cold weather. WSDOT attempts to program rehabilitation for pavement segments when they are projected to reach a Pavement Structural Condition (PSC) of 50. A PSC of 50 can occur due to various amounts and severity of distress. Refer to the table above for examples for flexible pavements such as asphalt. For rigid pavements (such as Portland cement concrete), a PSC of 50 represents 50 percent of the concrete slabs exhibiting joint faulting with a severity of 1/8 to 1/4 inch (faulting is the elevation difference at slab joints and results in a rough ride – particularly in large trucks). Further, a PSC of 50 can also be obtained if 25 percent of concrete slabs exhibit two to three cracks per panel.

The International Roughness Index (IRI) uses a scale in inches per mile. Rutting is measured in millimeters. The three indices (PSC, IRI, and Rutting) are combined to rate a section of pavement which is assigned the lowest category of any of the three ratings. The following table shows the combined explanatory categories and the ratings for each index.

Category	PSC	IRI	Rut
Very Good	100 – 80	<= 95	<= 4
Good	80 – 60	95 – 170	4 – 8
Fair	60 – 40	170 – 220	8 – 12
Poor	40 – 20	220 – 320	12 – 16
Very Poor	0 – 20	> 320	> 16

Notes: Based on WSPMS 2002 database. Ramps are not included. Based on all three indices: PSC, IRI and Rut. A section of pavement is assigned the lowest category based on the three indices. The following table lists the explanatory categories and the ranges of the underlying indices. From 1991 - 1998, previous year IRI and rut values were used for those sections that were not surveyed in a particular year.

Beginning in 1999, the pavement distress survey procedure changed from a windshield survey to an automated survey. In the automated survey, high-resolution video images are collected at highway speed and these video images are then rated on special workstations at 3-6 mph speed. This change has also resulted in a more detailed classification and recording of various distresses that are rated.

Pavement condition surveys are generally conducted in the fall of each year, then analyzed during the winter and spring, with the previous year’s results available by July each year. The chart on the following page shows recent pavement condition ratings for the State Highway System, using the combination of the three indices described above.

Condition Rating of Washington State Department of Transportation's Pavement

Percentage of Pavement in Fair or Better Condition					
	<u>2002*</u>	<u>2001*</u>	<u>2000*</u>	<u>1999*</u>	<u>1998*</u>
Statewide - Chip Seals	89	89	92	91	76
Statewide - Asphalt	91	92	95	93	90
Statewide - Concrete	92	92	92	90	92
Statewide - All Pavements	91	91	94	92	87

Percentage of Pavement in Poor or Very Poor Condition					
	<u>2002*</u>	<u>2001*</u>	<u>2000*</u>	<u>1999*</u>	<u>1998*</u>
Statewide - Chip Seals	11	11	8	9	24
Statewide - Asphalt	9	8	5	7	10
Statewide - Concrete	8	8	8	10	8
Statewide - All Pavements	9	9	6	8	13

* Calendar year data. Assessments are typically made in the fall of each year, and verified during the winter and spring, with final results released in June. Years indicated are when the physical assessment was done in the fall.

Note: The All Pavements percentages are calculated from total database averages, not a statistical average of the three pavement type percentages.

More information about pavement management at the Department of Transportation may be obtained at:
http://www.wsdot.wa.gov/biz/mats/pavement/pave_management_main.htm

Bridge Condition

During Fiscal Year 2003 there were 3,079 state-owned vehicular structures over twenty feet in length with a total area of 45,346,173 square feet. In addition to bridges, the 3,079 structures included 77 culverts and 30 ferry terminal structures. All bridges are inspected on a two to four year interval, with no more than 10 percent of the bridges inspected less than every three years. Divers inspect underwater bridge components at least once every five years in accordance with Federal Highway Administration requirements. Special emphasis is given to the ongoing inspection and maintenance of major bridges representing a significant public investment due to size, complexity or strategic location. Information related to public bridges is maintained in the Washington State Bridge Inventory System (WSBIS). This system is used to develop preservation strategies and comprehensive recommendations for maintenance and construction, and for reporting to the Federal Highway Administration (FHWA).

While the WSDOT has a 20 year goal of no structurally deficient bridges, the policy for the current biennium is

to maintain 95 percent of its bridges at a structural condition of at least fair, meaning that all primary structural elements are sound. The most recent assessment found that state-owned bridges were within the prescribed parameters with 97 percent having a condition rating of fair or better and only 3 percent of bridges having a condition rating of poor. Bridges rated as poor may have structural deficiencies that restrict the weight and type of traffic allowed. No bridges that are currently rated as poor are unsafe for public travel. Any bridges determined to be unsafe are closed to traffic.

The following condition rating data is based on the structural sufficiency standards established in the FHWA "Recording and Coding Guide for the Structural Inventory and Appraisal of the Nation's Bridges." This structural rating relates to the evaluation of bridge superstructure, deck, substructure, structural adequacy and waterway adequacy. Three categories of condition were established in relation to the FHWA criteria as follows:

Category	National Bridge Inventory Code	Description
Good	6, 7, or 8	A range from no problems noted to some minor deterioration of structural elements.
Fair	5	All primary structural elements are sound but may have deficiencies such as minor section loss, deterioration, cracking, spalling or scour.
Poor	4 or less	Advanced deficiencies such as section loss, deterioration, cracking, spalling, scour or seriously affected primary structural components.

Notes: Bridges rated in poor condition may be restricted for the weight and type of traffic allowed.

Condition Rating of Washington State Department of Transportation's Bridges

Percentage of Bridges in Fair or Better Condition						
<u>Bridge Type</u>		<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Reinforced Concrete	(1,301 bridges in FY 2003)	98	97	96	95	NA
Prestressed Concrete	(1,275 bridges in FY2003)	99.5	99.5	99	99	NA
Steel	(346 bridges* in FY 2003)	93	92	91	91	NA
Timber	(64 bridges in FY 2003)	69	70	71	71	NA
Statewide - All Bridges	(2,986 out of 3,079 bridges in FY 2003)	97	96.7	96	95	NA

Percentage of Bridges in Poor Condition						
<u>Bridge Type</u>		<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Reinforced Concrete	(29 bridges in FY 2003)	2	3	4	5	NA
Prestressed Concrete	(7 bridges in FY 2003)	0.5	0.5	1	1	NA
Steel	(28 bridges* in FY 2003)	7	8	9	9	NA
Timber	(29 bridges in FY 2003)	31	30	29	29	NA
Statewide - All Bridges (93 out of 3,079 bridges in FY 2003)		3	3.3	4	5	NA

N/A indicates data not available.

*The steel bridge ratings for FY2003 include 24 Ferry terminal structures rated as fair or better and six Ferry terminal structures rated as poor. While the terminals are included in a depreciable asset category, they are included here with bridge condition information since they are evaluated by the WSDOT Bridge Office on a periodic basis.

Note: Bridges rated as poor may have structural deficiencies that restricted the weight and type of traffic

allowed. WSDOT currently has 13 posted bridges and 143 restricted bridges. Posted bridges have signs posted which inform of legal weight limits. Restricted bridges are those where overweight permits will not be issued for travel by overweight vehicles. Refer to <http://www.wsdot.wa.gov/freight/mcs/> for more information. Any bridges determined to be unsafe are closed to traffic. WSDOT had one closed bridge at June 30, 2003.

Additional information regarding the Department of Transportation's bridge inspection program may be obtained at:
<http://www.wsdot.wa.gov/eesc/bridge/index.cfm> or
<http://www.wsdot.wa.gov/accountability/default.htm>

Emergency Air Field Condition

The Washington State Department of Transportation (WSDOT), through its Aviation Division is authorized by RCW 47.68.100 to acquire and maintain airports. Under this authority, WSDOT owns eight emergency airfields and leases several others. Most of the airfields are located near or adjacent to state highways and range in character from paved to gravel or turf. The prime task of the airfields is to provide emergency facilities. Two airfields are in operational condition twelve months of

the year, with five operational from June to October each year. One is only available for emergency search and rescue use. In accordance with WSDOT policy, maintenance is done on each airfield annually to keep it at its existing condition of use. Each airfield is inspected a minimum of three times per year.

The definitions below form the rating criteria for the current airfield condition ratings which follow.

Category	Definition
General Use Community Airport	An airport with a paved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
Limited Use Community Airport	An airport with an unpaved runway capable of handling aircraft with a maximum gross certificated takeoff weight of 12,500 pounds.
General Recreational Use Airport	An airport with a turf (unpaved) runway near access to recreational opportunities with capacity for aircraft less than 12,500 pounds.
Limited Search and Rescue Forward Operating Location	An airport with a landing pad only capable of accommodating rotorcraft.

Condition Rating of Washington State Emergency Airfields

		<u>Number of Airports</u>				
Owned airports:						
Acceptable for general use as a community airport		2				
Acceptable for limited use as a community airport		1				
Acceptable for general recreation use		4				
Limited search and rescue forward operating location		1				
Total owned airports		8				
		<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Percentage of airports acceptable for general recreational use or better		88	88	88	88	88
Percentage of airports not acceptable for general recreational use or better		12	12	12	12	12

Notes: One airport is open only as a limited search and rescue operating location and is expected to remain in that status.

For pictures of specific airfields, see our website at: <http://www.wsdot.wa.gov/Aviation/airports/default.htm>

Information about Infrastructure Assets Reported Using the Modified Approach

Comparison of Budgeted-to-Actual Preservation and Maintenance

For the Fiscal Year Ended June 30, 2003
(expressed in thousands)

	FY 2002			FY 2003			Total		
Pavements	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Preservation	\$ 134,810	\$ 127,946	\$ 6,864	\$ 119,160	\$ 123,883	(\$4,723)	\$ 253,970	\$ 251,829	\$ 2,141
Maintenance	23,746	19,485	4,261	22,796	24,123	(1,327)	46,542	43,608	2,934
Total	\$ 158,556	\$ 147,431	\$ 11,125	\$ 141,956	\$ 148,006	(\$6,050)	\$ 300,512	\$ 295,437	\$ 5,075
Bridges									
Preservation	\$ 24,270	\$ 16,307	\$ 7,963	\$ 22,460	\$ 23,988	(\$1,528)	\$ 46,730	\$ 40,295	\$ 6,435
Maintenance	11,430	11,012	418	11,222	12,853	(1,631)	22,652	23,865	(1,213)
Total	\$ 35,700	\$ 27,319	\$ 8,381	\$ 33,682	\$ 36,841	(\$3,159)	\$ 69,382	\$ 64,160	\$ 5,222
Emergency Air Fields									
Preservation & Maint.	\$ 70	\$ 64	\$ 6	\$ 70	\$ 58	\$ 12	\$ 140	\$ 122	\$ 18

Notes: Numbers for the Pavement and Bridges budget amounts came from the 2001-2003 biennial plan as shown in the WSDOT December 2001 *Monthly Financial Report* for sub-programs P1 (Roadway Preservation), P2 (Structures Preservation), and M2 (Roadway, Bridge & Tunnel maintenance). For FY 2002, the annual budget amount was calculated as half the biennial amount. The Preservation budgeted and actual amounts were adjusted for capitalized infrastructure and equipment in FY 2002.

The emergency airfields (program F3, State Airport Construction and Maintenance) budget amount came from the same sources as for pavements and bridges described above but is only one fourth of the biennial amount budgeted as half of the biennial budget is assigned for airfields not owned by WSDOT.

The Maintenance Accountability Process (MAP) measures and communicates the outcomes of 34 distinct highway maintenance activities. Maintenance results are measured via field condition surveys and reported as

Level of Service (LOS) ratings. LOS targets are defined in terms of the condition of various highway features (i.e. percent of guardrail on the highway system that is damaged) and are set commensurate with the level of funding provided for the WSDOT highway maintenance program. More information about MAP may be obtained at:
<http://www.wsdot.wa.gov/biz/maintenance/htm/accountability.htm>

The state implemented the requirements of Statement No. 34 of the Governmental Accounting Standards Board (GASB), including the provisions related to capitalizing and reporting infrastructure on the modified approach, in Fiscal Year 2002. While budget to actual information is not available for years prior to Fiscal Year 2002 using the GASB definitions of preservation and maintenance, historical budget to actual information for the entire Construction and Maintenance programs is available by contacting the WSDOT Budget Office at (360) 705-7500.

APPENDIX E
BOOK-ENTRY TRANSFER SYSTEM

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BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The state makes no representation for the accuracy or completeness thereof, or for the absence of material changes in such information subsequent to the date hereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system, in Authorized Denominations, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the state as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distribution and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the state or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Registrar or the state, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the state or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Bond Registrar or the state. Under such circumstances, in the event that a successor securities depository is not obtained, new certificates are required to be printed and delivered.

The state may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

APPENDIX F

MUNICIPAL BOND INSURANCE POLICY SPECIMEN

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary

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